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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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2 April 1985

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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INTERNATIONAL AFFAIRS

GDR TO INCREASE PRODUCTIVITY DUE TO ACCORDS SIGNED WITH USSR

Hamburg DIE ZEIT in German No 4, 18 Jan 85 p 21

[Article by Michael Schmitz: "The Best for Big Brother"]

[Text] Production director Hans Tagnatz is more than conscious of the "most important task" for this year: "Our obligation to the long-standing partner, the Soviet Union." Three "top quality ships" are to be "punctually delivered" by the Boizenburg Elbe Shipyard. This means cutting assembly time from 10 months to 9.5 months. According to Tagnatz, the shipyard workers are firmly resolved to make the effort.

These words are a message suitable for citing by GDR television--more than ever in 1985, the 40th year of Germany's liberation from the Nazi regime. In the GDR there is no year without a campaign, this time it is in honor of big brother. Also, this year it is more than ever a matter of propaganda and material success, because German-Soviet friendship, stipulated in the Constitution itself, has become more expensive.

In the course of the latest summit of the Council for Economic Mutual Aid (CEMA), the Kremlin leaders requested their Eastern economic partners "to gradually and consistently develop their output and export structure so as to make available the products needed by the Soviet Union." This means above all machinery, plant and consumer goods "of top quality and at world technical standards." Moscow threatened that this was the only way of guaranteeing the partners' supplies of Soviet crude oil and natural gas.

Admittedly, the USSR--holding a monopoly on natural gas and oil in CEMA--would not turn off energy supplies for any of its allies. The Soviets are not interested in destabilizing the political situation in the Warsaw Pact, certainly not in the GDR. Yet even East Berlin must take heed of the possibility of cuts in supplies. In 1982, for example, the USSR cut back oil exports to the GDR by 10 percent.

By its energy raw materials oil and gas, the Soviet Union offers CEMA so-called hard commodities (in other words, commodities in demand on the world market). However, most products it obtains in return are far removed from that standard and unsaleable on Western markets. Compared with the quality of Western products, much of it is no more than scrap.

The USSR therefore requires more quality and quantity from the other Eastern Bloc states. Nor is it prepared any longer to provide energy on credit. The Russians are even asking for the accrued balance of trade deficits to be paid down. At the present time the GDR owes the Soviets about 3.5 billion transferable rubles (\$5 billion), though it is the USSR's strongest and most important trading partner and already sends 40 percent of all its exports to that country. Machines, industrial plant, transport equipment and industrial consumer goods account for 80 percent of the total.

However, the GDR does badly in the transaction technology for raw materials, because international prices of crude oil and natural gas have risen faster than prices of industrial products, and because the CEMA countries line up their prices to those charged on Western markets even when trading among themselves.

In 1975 Moscow expressed its readiness to calculate its oil prices annually by the average of world market prices in the preceding 5 years. Consequently the OPEC price effect on CEMA quotations was quite slow. In 1982, for example, the Soviet Union charged the GDR only half the barrel price the FRG had to pay the Saudis. The total "price discount" granted by Moscow in the past 10 years amounted to 25 billion transferable rubles. The situation with regard to natural gas was similar.

The Kremlin leaders considered themselves the paymasters of CEMA and, since 1982, have more quickly increased their own prices. They cut the calculation period to 3 years. By now Moscow oil prices have arrived at roughly the same level as the OPEC price.

For political reasons, East Berlin had Werner Liebig, its deputy CEMA secretary, state on GDR television that raw material prices are fixed "without squeezing the last drop, as is the usual procedure in the Western world." GDR citizens consider their East-West trade inequitable, because they now need to export about 50 percent more machines in exchange for energy from Siberia than 10 years ago. The GDR is particularly hard hit by the coupling of prices to world market prices in the sector of ship construction, because prices there are determined by low wage cost countries such as South Korea. As a result the revenues of GDR shipyards are declining. Again it is the Soviet Union which profits. Yet, at the latest CEMA summit, it insisted on no more than the continued application of rules agreed long ago.

"Fourteen new agreements signed with the Soviet Union," NEUES DEUTSCHLAND jubilantly proclaimed late last month, when it published the results of the 35th Meeting of the CEMA Commission. Gerhard Schuerer, head of the GDR delegation at the "Government Commission for Economic and Scientific-Technical Cooperation between the GDR and the USSR" and his Soviet colleague Aleksey Antonov had to negotiate contracts guaranteeing the observance of the latest CEMA summit resolutions. "A new dimension of cooperation," was the comment of the SED central organ.

In fact, the Soviets are dissatisfied by the present cooperation. In an article published by NEUES DEUTSCHLAND on the occasion of the GDR's 35th

anniversary, Antonov's predecessor Leonid Kostandov (suddenly deceased), had complained of the "difficulties" and "inadequacies" in the organization of scientific-technical cooperation. To be sure, Kostandov addressed his reproaches equally to both sides. Cooperation, he said, was "obstructed by the inadequacies of the actions of industry ministries, associations, combines and enterprises in the USSR as well as in the GDR."

In fact, the GDR can point to more than good will. To give publicity to that aspect, Foreign Trade Minister Soelle some time ago invited an interview by GDR television. The minister explained that 50 percent of deliveries to the Soviet Union were to be classified under the heading "specialization and cooperation of production." This refers to projects such as cited by GDR television for the year end review 1984:

"Collectives of our republic are currently laboring on 15 construction sites in the Soviet Union, working on projects of great importance for the future security of the energy and raw materials base of the GDR also," the review said. "A metallurgical combine is rising in Rybnitsa (Moldavia). Heavy machine constructors from Magdeburg are here assembling their 30th rolling mill for the Soviet Union."

The new government agreements are tying the GDR even more closely to the Soviet Union. This structural change may not be debated in public in the GDR, but it is of greater import than the officially celebrated trade volume which is set to achieve 15 billion transferable rubles this year. Moscow's demands may well have an educational function: They obligate the GDR to produce better.

German Exports to the USSR - Structure of Soviet Imports from the GDR and the FRG, Percentages

(1) Warengruppen*)	(2) Einfuhr aus der DDR						(3) Einfuhr aus der Bundesrepublik					
	1970	1975	1980	1981	1982	1983	1970	1975	1980	1981	1982	1983
(4) Maschinen, Fahrzeuge	59,1	63,1	64,5	64,1	65,6	66,8	37,4	52,5	40,1	35,0	46,4	53,6
(5) Brenn-, min. Rohstoffe, Metalle	0,4	-	-	-	-	-	44,1	36,3	29,7	26,6	27,9	24,2
(6) Chemische Produkte, Dünger	6,4	6,0	4,6	4,6	3,8	3,8	10,4	5,5	10,2	10,5	8,2	6,7
(7) Baustoffe und Bauelemente	0,3	0,3	0,3	0,3	0,2	0,3	-	-	-	-	-	-
(8) Obige Rohstoffe	0,5	0,7	0,7	0,6	0,6	0,6	0,8	0,8	2,4	2,0	2,3	2,3
(9) Landwirtschaftliche Rohstoffe	-	-	-	-	-	-	-	-	0,0	0,0	0,0	0,0
(10) Nahrungs- und Genußmittel	-	-	-	-	-	-	-	-	2,4	3,8	2,7	2,2
(11) Industrielle Konsumgüter	20,6	15,9	13,6	14,0	15,0	15,0	3,5	1,2	1,2	2,6	1,3	1,6
(12) Nichtausgewiesene Waren	12,7	14,0	16,3	16,6	14,8	13,5	3,8	3,7	13,8	19,0	11,2	9,6
(13)	*) Nach der RGW-Nomenklatur. Quellen: Vnesnaja trgovlja SSSR. Jahrgänge 1971 bis 1983. Zusammengestellt vom DIW											

Key:

- |                            |   |
|----------------------------|---|
| 1. Groups of commodities*) | 4. Machines, vehicles                   |
| 2. Imports from the GDR    | 5. Fuels, mineral raw materials, metals |
| 3. Imports from the FRG    | 6. Chemical products, fertilizer        |

[Key continued on following page]

7. Construction materials and components
8. Other raw materials
9. Agricultural raw materials
10. Essential and nonessential foods

11. Industrial consumer goods
12. Nonspecified commodities
13. As per CEMA nomenclature. Sources:  
"Vnasnyaya Torgoviya SSSR" 1971-  
1983. Compiled by German Institute  
for Economic Research

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INTERNATIONAL AFFAIRS

VALIDITY OF RECENT CEMA ECONOMIC REFORM EXPERIMENTS DEBATED

West Berlin WOCHENBERICHT DES DEUTSCHEN INSTITUTS FUER WIRTSCHAFTSFORSCHUNG in German No 8, 21 Feb 85 pp 91-99

[Article: "Economic Reforms in Eastern Europe--Higher Efficiency or Blind Alley?"]

[Text] Encouraged by Berlin's Senator for economics and transport, DIW (Deutsches Institut fuer Wirtschaftsforschung) held a symposium on 10 and 11 December 1984 that dealt with the situation and development and various attempts at reform in the East European states. The following report gives a survey on the papers given there. Their complete texts are published in VIERTELJAHRESHEFTE ZUR WIRTSCHAFTSFORSCHUNG.

The Objectives of the Symposium

The worldwide economic difficulties in the second half of the 1970's have left their traces in West and East. How much they were carried over from one region to the other or whether they were common problems is a moot question. Certain is that there are a number of fields in which both West and East alike have to look for new economic-political solutions. Production growth is low or has slowed down although modern technology is making fast headway. Many industrial countries, especially those in CEMA, have trouble introducing the modern technologies. The much higher costs for energy and raw materials pose adjustment tasks not easy to cope with. Both West and East complain that the reaction to the challenge of the structural change has not been adequate.

Experiences of recent years in the West have shown that the market continues to have a considerable capacity to make for solutions. Even if there are some areas in which structural change makes no headway without help from the state, there can ultimately be no doubt that structural change through state intervention that by-passes the market won't do. In its 1983 structure report DIW has shown that state subsidies, e.g., rather impeded than promoted structural change. What is one to do then if--as in socialist countries--the market is not available for settling adjustment tasks? Can one cope with such tasks without adapting the planning and management system to the changed growth conditions? Can the system altogether be stabilized without economic reforms?

Which changes in the planning and management system are and are not to be considered as economic reform has long been disputed. From the system's theory one knows that even quantitative changes can lead to qualitative leaps. That gives minor importance to the question which change is necessary to speak of reforms. Moreover: in some CEMA countries one finds a changed reform strategy as such. It is no longer a matter of large-scale reforms and new conceptions, as was the case in the 1960's, but of many small partial changes in the economic mechanism, of "perfecting" what one has.

This symposium focused on those CEMA countries which either had developed the most interesting reform concepts or are of crucial importance for the development of CEMA at large. On the one side these are Hungary and Bulgaria, on the other, the USSR and the GDR. In the case of the GDR there is the additional point that it also is, after all, one of the research priorities of the GDR and eastern industrial countries department in DIW.

The symposium deliberately confined itself to dealing with economic problems. No doubt, the differences in the reform process in the various CEMA countries, as far as the sponsors of the symposium were concerned, also have a domestic and foreign policy dimension. They are more and more coming to the fore in the debates within the CEMA countries. Supra-state coordination of national reform policies has emphatically been demanded already by Soviet politicians and scientists. That has remained a matter of theory thus far, however. Yet it is not unlikely that the debate about it will become more important. If one wants properly to assess that in all its aspects one must first of all understand what changes in the planning and management system and what economic reforms have thus far taken place in the various CEMA countries.

The Perimeter of Reform Aspirations: Weak Efficiency, Foreign Economy Burdens, and a Stagnating Standard of Living

The CEMA economies found their growth rates weakened in the mid-1970's and subsequently grown stronger again. In 1981 and 1982 growth rates hit a low. That was caused, for one thing, by domestic economic factors. There was more and more of a labor shortage, mainly for demographic reasons, and the extension of production capacities had to be curtailed. Everywhere growth was to be made possible more through "intensification" than through any extensive increase of production factors. In that situation the well known weaknesses in the East European planned economies--inefficient use of labor and capital, sluggishness in innovation, management and organizational deficiencies on the macro and micro level and so forth--turned out to be more negative than ever.

The changes in the world economy in the early 1970's furthered growth in the USSR. The smaller East European states, however, have been confronted since then with two foreign economy problems: Their terms of trade worsened because of the worldwide price hikes for raw materials and their trade balances showed an increasing import surplus--especially vis-a-vis the West. They had to be covered by credits. But the credit policy of western commercial banks, changed not until the second oil price shock (1979/80) and, mainly, after the Polish crisis (April 1981) forced those states to adopt a payment balance oriented economic policy. The group of the smaller countries in 1982 and 1983, in their trade with OECD countries produced export surpluses--for the first time since

the mid-1950's. That was primarily done, however, through curbing imports and had its negative effects on supplying domestic markets. In 1983, the net indebtedness in convertible currencies was reduced by between \$ 4 and 4.5 billion to \$ 53 billion (some of that reduction, however, was caused by the stronger dollar).

As a matter of principle, the CEMA states have declared the "main task" of their economic policy to be the improvement in the prosperity of their masses, striving for a consumption level in line with the leading western industrial nations. Ideologues and economic planners reject puritanism and levelling while they of course also place a distance between themselves and the excrescences of western "consumer societies" and their throw-away mentality.

The actual trend of the living standard in the second half of the 1970's and in the early 1980's remained below expectations and the planning targets. The growth rates in private consumption, relatively high until 1975, dropped in subsequent years. Stagnation occurred in some countries, a deterioration of the supply situation throughout, in others. There were shortages in certain foods, Poland and Romania had to ration some foods. Such stagnation is causally connected with the diminishing economic growth rate in East European countries and with the fact that there are now other priorities than increasing prosperity, such as trimming foreign debt. In seeking to surmount the growth crisis and the consumption weakness, the different countries took different routes indicated mainly by the price and subsidy policy and by their tolerating certain market-economy elements. Here the USSR and Hungary occupy extreme positions and the other countries are found somewhere between those extremes.

Stagnation and differences in economic policies have hardly made any change to the "rating" of the CEMA countries as to living standards (except for the special case of Poland). The top group continues to be the GDR, the CSSR and Hungary, which all in this sequence lie above the CEMA average. Below average are the USSR, Bulgaria and--at a distance--Romania as the tail-light.

Since 1983, overall economic production has risen again in Eastern Europe. In doubt still is whether this upward trend will last because the causes for it cannot yet be made out clearly. What is particularly questionable is whether all those measures have helped bring it about which were taken by the political leadership in Eastern Europe as a reaction to the dropping growth rate, more scarce resources and foreign economy burdens in order to improve the planning and management systems.

#### Soviet Union: Experiments

Since Andropov, the reform scenery in the Soviet economy has revived. The current economic leadership carries on this course of "technocratic streamlining," of "small steps" within the administrative planning system. There is a causal connection between reform debates and measures and the increasing shortage in labor, capital, energy and other raw materials. So the leadership has to seek to improve efficiency.

An industrial planning system reorganization apparently is immediately ahead. A new five-year planning period is going to start next year (1986-1990). Experience has shown that a change from one planning period to another brings changes in the planning system. The starting point for it is a planning experiment that as of 1 January 1984 was started under the auspices of five selected industrial ministries and has meanwhile been extended to seven other departments. The main elements in this experiment are:

- reorganizing the planning framework through well timed and medium range stable planning (an old idea, never brought to realization);
- expanding the decision-making leeway for production associations and enterprises by making them take part in planning, reducing the preassigned and mandatory plan parameters, parameter exchange, expansion of the regulations on norms, and placing greater importance on inter-enterprise contracts;
- expanding the financing leeway in the production associations and enterprises through allowing them more decisions on their own funds, expanded credits for them and a transition from handing over their profits to the "normative method," i.e. a sort of profit taxation; and
- reorganizing the incentive system by "perfecting and simplifying" the bonus system, newly establishing "fund forming parameters," and more elasticity in setting wages within the enterprises.

The Soviet press keeps reporting on the results of this experiment, ascertaining both the positive and the negative. Expanded leeways for decision-making and initiatives by the enterprises or production associations are stressed as much as the shortcomings in the horizontal integration of enterprises under this experiment (the term used is inadequate adaptation of material supplies) or their vertical integration (the term: excessive intervention and regimentation by the ministries in charge continue).

They have clearly kept the experiment, and so also the impending reform, within the traditional planning system; its basic institutions and principles remain unaltered. So one must expect the results also to remain limited, even though one must not from the outset preclude some improvements also, at least partial ones. Nothing argues against the applicability in socialist planned economies also of "social engineering in small steps."

Against that, however, have been launched more far-reaching reform proposals such as the so-called Novosibirsk Report calling for a "pervasive and comprehensive change" of the Soviet economic system. The very point made in this report is that the prevailing system cannot be improved by inserting new "progressive elements." Such reform concepts are running up against domestic and foreign policy and ideological barriers in the USSR for now and the foreseeable future, however, so that for the time being there will come nothing but a partly modified system in the economic planning administration.

#### GDR: Reform in Small Steps

The "economic strategy for the 1980's," proclaimed at the 10th SED Congress in 1981, makes "intensification" the focal point of the GDR economy. All chances are to be used for improving the cost/benefit ratio, for rationalization and productivity boosts. By the addition in the control elements termed "management, planning and economic cost accounting" (in the past merely "management and planning"), the high place value of the cost/benefit ratios is expressed: the principle of optimization is to replace that of maximization.

The program guidelines for the economic strategy have meanwhile been given concrete form by a wealth of law regulations that have revamped the economic mechanism. Circa 80 laws and decrees have been altered. The most important ones are:

--The organizational structure of the GDR economy was changed through the forming of combines. Large production units with their own research facilities, ancillary supply capacities and foreign trade authorizations are supposed to help organize the entire production process more rationally.

-- In the direct management (mandatory quotas for the combines and enterprises) there are new major parameters for the performance rating, this being net production, net profit, products and services for the population, and export. They also handle now more strictly their balancing and working with norms and standards for material consumption. There are new regulations for many sectors (transport, investments, R&D).

--Through indirect management enterprises are meant to be induced to conduct themselves the way the state wants them to by the granting or withdrawal of advantages. All these measures are, essentially, tied to the profit principle. Net profit, among other things, feeds the bonus fund; making a profit thus is in the interest of the enterprise and those who work in it. Through a cautious revaluation of the role of profit and variants in the components of generating profit (credit, interests, contributions to public funds, production fund dues, prices), a material interest in economizing is meant to be stimulated.

--To control performance rating the network of control organs and instruments has been expanded.

Unlike the new economic strategy of the 1960's, no step has however been taken this time toward decentralizing decisions. The initial attempts at expanding decision-making authorizations for the combines, when the combines were being formed, have again been curtailed meanwhile. As far as reform initiatives are concerned, the GDR therefore does not belong with Hungary but rather on the side of the traditional planning system of the Soviet Union.

The new system also clearly has weak spots (opposing interests between combines and enterprises, "soft plans," sluggishness in innovation, not enough motivation, price distortions). It banks on stability and accuracy when rapid reaction and flexibility would be needed. Altogether, however, the prevailing economic mechanism undoubtedly is more efficient than the system of the 1970's. The trimming of specific energy and material consumption and the stabilization of growth have to be rated as its first successes.

#### Hungary: Profit Orientation

The purpose of the "new economic mechanism" introduced in 1968 was combining central global planning with detailed planning in enterprises. The national economic plan had become satisfied to set down merely the chief goals of economic development and let it go at that. Central targets were mainly to be achieved through a system of the "economic regulators." No longer was the plan then the

sum total of all administratively established production quotas. Guidelines for using indirect management tools were added to it. That includes mainly all the price, wage, credit and foreign currency policy. Production decisions were by and large left to the enterprise managers. Maximizing enterprise profits was to become the essential target function in enterprise operations.

In 1973, the reform was stopped. The reasons for it cannot be clearly diagnosed. To the extent that they were economic in nature, one can work with the hypothesis that the imbalance that had arisen was responsible for it. Investments and consumption exceeded domestic output and had to be maintained accordingly by import surplus or foreign credits. At that time they evidently did not dare seeking the consolidation goal via further curtailing central power for the benefit of the enterprises.

Triggered by the drastic world market changes, the foreign economic imbalance deteriorated even more. Hungary was hurt especially by the changes on the world market. A relative scarcity in raw materials required extensive imports, the small size of the domestic market called for much specialization or a concentration on relatively few products to be able to take advantage of the cost benefits in mass production. Hungary's foreign trade integration is the highest in CEMA; in 1983--gaged against the export quota (export in percent of national income)--it came to 50 percent.

Foreign economy problems are likely to have helped bring it about that by the late 1970's those forces were again able to prevail in Hungary that advocated a further development of the "new economic mechanism." They argued that only that way economic problems could be mitigated and the contacts with the world market be ensured. Interrupting the reform process had already given rise to many negative consequences for Hungary's medium-range economic development, as one Hungarian economic politician stated.

By introducing many measures, starting in 1980, for changing the economic mechanism, the Hungarian reform policy entered a new phase. The most significant changes in the economic mechanism are:

- the strong alignment of domestic with world market prices;
- the introduction of a uniform exchange rate; and
- measures to promote competition and legalize the "second economy."

A resolute implementation of the measures is, however, often still amiss:

--Still 30 percent of state expenditures goes to subsidies.

--The control function of the exchange rate is watered down by import dues and export subsidies.

--Unprofitable enterprises are closed down only in extreme cases (The full employment guarantee!).

Thus far, the reform measures have only had limited success. Debt conversion could be avoided only through external aid (IMF, BIS), and the trade balance could be activated only by import cuts. Between 1973 and 1983, the standard of

living dropped between 6 and 7 percent. "Tailor-made regulators" (exceptional rulings) conserve unprofitable structures, all too frequent changes of the regulators confuse the enterprises.

One dilemma in the Hungarian reform policy is that it intends more rewards for performance but no means are available for them because at least the production increase has to be exported.

Yet one must still not ignore the advantages of the Hungarian management system. As in no other CEMA country, individual initiative is encouraged and additional chances are offered for making money through work. Nor is there hardly any other CEMA country in which economic policy problems are as openly discussed as in Hungary. So, in assessing the Hungarian management system, the political dimension should not be left out of consideration.

The decision by the political leadership to carry on in the same direction with changes in the management system over the years ahead indicates that the Hungarian economic reform, despite inadequate efficiency improvements, is not in a blind alley.

#### Bulgaria: Decentralization

After a test phase, first in agriculture (since 1979) and then also in industry (since 1980), the "new economic mechanism" was extended to Bulgaria's entire economy in early 1982. This does not amount to a cohesive reform program. On the contrary: Since then the new rules in the planning and management system have often been changed further--in the official vernacular, this system is constantly being "perfected"--so as to greatly amend the reform package at the turn of the year from 1983 to 1984, and another change evidently is coming. This suggests the weaknesses, gaps, inconsistencies and obscurities in the original reform concept but evidently also that enforcing the economic measures the government decided on has run into resistance (that cannot be accurately localized and quantified). This makes it hard for outsiders to judge the reform process.

The focal point of the new economic mechanism lies on replacing the purely administrative planned economy by a "new economic approach." For that, planning and plan supervision are to become more decentralized. Traditional planning tasks according to volumes are to be curtailed. Along with the basic materials and energy economy, 70 percent of the processing industry remains under direct planning, to be sure, but they intend a greater reduction in the number of mandatory plan parameters. The control and rating of the other economic sectors were shifted in detail to indirect value parameters (gross profit, liquidity, prices, credits, foreign currency revenue and so forth). And then there are also the ancillary supply and sales contracts that determine the production assortments and so also the so-called "counter-plans" of those economic units. Wage rates are, in principle, tied to enterprise performance--gaged by the net profit--where then also the importance of central control is emphasized. Price setting also remains, in principle, in the competency area of official authorities, but it is to be made more flexible and--for the first time--be more oriented to the trend of world market prices. The absolute priority is supposed to go to inflation fighting.

In the investment sector, central control is hardly relaxed; there the ideas of the top planning authorities remain decisive. On the other hand, the modifications made to the official foreign trade and valuta monopoly--in principle maintained--have been carried out: The foreign trade totals thus for the first time directly affect the profit-and-loss statements of the export and import economy. The foreign trade organization was relaxed. The enterprises according to certain rules may have their own "valuta fund." There is no change in the currency policy: National currency remains unconvertible. They are holding on to the official--economically unrealistic--exchange rate against the U.S. dollar and the transfer ruble with internal conversion coefficients (kept secret) and a system of standardized export subsidies.

This partial economic reform ("controlled decentralization") goes hand in hand with official assistance to small and medium-size trade enterprises and--more important--a more positive attitude by official authorities toward private rural plots (which in 1982 worked circa 13 percent of all the acreage and produced one fourth of all farm production).

#### Shadow Economy: Substitution for Reform?

In the discussion about the shadow economy the emphasis shifts from problems in definition and demarkation and empirical accounts to a theoretical observation in terms of systems analysis against the background of the "light economy." Attention is paid there also to the relation of the shadow economy with the reform of the official economic system. Under that aspect the definitions--conditioned by the research object as they are--have to be reconsidered. In the now following reflections, the shadow economy is part of the Soviet economic system which not merely evades official controls but lies outside the official economic system by which it is constantly being affected, however, in various ways. The dynamics and interactions between the two have to be explained with reference to the development of the official economic system.

Usually the official economic system is identified with the planned economy as such. However, one ought to differentiate cautiously between various methods of official direction. The official economic system itself is a system in one part of which strict central planning and management predominate (the major tasking area) and in the other part of which (the normal economy), along with central direction, also elbow room is left for enterprise decisions, direct horizontal relations, economic incentives through global success indicators and others. This part includes as normal components of the economic system public demand, the kolkhoz market, certain admissible market phenomena in the labor supply system and other matters.

The shadow economy is confined to sectors outside the admissible economic system. The transitions, however, are fluid. The shadow economy embraces different, often unconnected, partial areas, it forms an addition of residual sectors. Constitutive for its genesis have been misachievements by the official economy and an individual initiative with a private motivation structure, often based on the tradition in private enterprise. Subsidiary conditions (e.g. resources availability) must also enter into the picture.



The shadow economy can be affected directly only by proscription (administrative prohibitions, threats of sanctions, penalties). Economic steering mechanisms normally get through to the shadow economy via two steps of indirect relations (the state--operating the normal economy; the normal economy--the shadow economy). Parameters, prices, the monetary and finance system, factoring and its evaluation, and the supply system create indirect conditions (parameters) for the shadow economy.

The shadow economy expands or shrinks after reforms have either failed or succeeded. Though it cannot be proven empirically, there is much that indicates that all reforms that can be understood as reinforcement for central direction--except for the major tasking area--have the tendency to encourage the shadow economy even though the opposite effect emanates from the legal conditions and resource allocation. Broadening the elbow room for enterprise decisions tends rather to restrict the shadow economy although wrong enterprise decisions and a better resource allocation point in the opposite direction. The shadow economy, rather than a handle for reform, is an undesired substitute for reforms.

#### Economic Reforms in the USSR from the Sociological Vantage Point: Lack of Motivation

Economic reforms have become more and more subject to sociological studies also in the Soviet Union. Especially the already mentioned Novosibirsk Report has emphatically made the point that improving management and planning primarily is a sociological problem and not a mathematical or technical problem--as many economists in the USSR and, by the way, also in Novosibirsk think it is ("the prevailing system can be changed only by the social groups occupying fairly high positions in it and therefore tied to that system by personal interests").

Production relations, this economists must also recognize, are not socially neutral. Thus also the ideas of what "efficiency" means take their clues from what the different economic systems amount to socially. On the micro-level there is a delicate balance in the USSR between binding commitments to the workers, such as job security, and--in "exchange" for that--an enterprise loyalty (that need not relate to the system) by the working crew. Also the concern for the workers' everyday cares, like housing, sports installations, vacation and recreational homes, or food supplies, is--unlike in western market economies--an enterprise responsibility in the USSR. When enterprises do not or only poorly meet their supply responsibility, they become the workers' conflict partners in areas that in western societies are not settled within the production system. When claims the workers are entitled to are infringed, the enterprises are compelled to look the other way when workers commit violations, too.

In terms of labor sociology, one understands as reforms in the USSR introducing brigades to induce high-grade labor, which will make possible intensive economic activity. Nearly 60 percent of the industrial workers has today been organized in such brigades. True enough, these brigades offer some advantages, particularly under the Soviet conditions of a feebly developed occupational specialized work training. Yet the literature also cites negative tendencies such as reducing performance to group-specific standards. The workers also get more of a chance to exercise control as the growing solidarity among the brigade members brings it about that disturbances in the production process are unanimously blamed on the enterprise administration and individual misbehavior can still more easily be covered up.

What this means from the overall economic point of view is that the problem of economic reform must not only be interpreted--as is often assumed--as conflicts of interests between the ministries and the enterprise management. Conflicts between management and the informally stronger work force are added to it as a third level, as it were, on which a successful enforcement of the economic reform can be halted, if not prevented. Given the imbalance among sectors as it exists, they are not likely to enforce restrictions with success--perhaps with regard to inefficient jobs--and boost labor achievements.

#### Economic Reforms in Eastern Europe as a Subject of Economic Theory

The Marxist approach is fruitless for attempts at reform in the socialist countries. The centrally planned economy fits fairly precisely what Marx said, in the "Critique of the Gotha Program," of socialism as the low stage in the communist utopia. Attempts at reform entrusting a larger role to the market, from the vantage point of dogmatic Marxism constitute a sort of heresy, and the advocates of reform are often pitilessly opposed as revisionists. By debarring the reformists, who regard themselves as frank Marxists, attempts at reviving Marxism have come to an end in the socialist countries.

In the neoclassical school the debate concentrated on so-called market socialism. There it is mainly the concept of Oskar Lange that bears emphasizing. Lange has found the solution of the problem of an efficient allocation of resources in simulating a market for production commodities while maintaining the markets for consumer goods and labor services. The debate about that usually is normative in character. It does not examine the actual problems in the centrally managed economy but prescribes solutions. The more recent criticism of market socialism underscores the questions of the information and motivational structure, emphasized even previously but now especially relevant. Even the limited information on competitive solutions relating to price setting remains still very large and can hardly be coped with by the central planning authority. No motivation by managers of firms toward following the arrangements imposed upon them is discernible. Unresolved also are problems of dynamics, especially those that have to do with risk and uncertainty.

In the positive theory of the centrally planned economy the attempt is made mainly to derive the existing inadequacies from the definition and features of that economy. They lie in the lack of independence by the undertakings not financially responsible for what they do. They also are due to the plans that normally are inconsistent and inefficient. Information going from the base to the center is distorted owing to the system: input needs are exaggerated, output chances remain hidden. That follows mainly from the incentive system which is normally based on the "ratchet principle": planning tasks for the next period proceed from the level attained; the higher the level attained, the more difficult the future planning quotas. Relations among undertakings are bound to lead to shortcomings in all sectors. Among the consequences of that are an illegal economy and widespread corruption.

The history of the attempted reforms is disappointing. First they thought they could do without reforms. Clearly deficient developments were thought to get remedied administratively and through campaigns (against enemies and thieves). Changes in economic policy for the benefit of consumption were meant to enhance

the material interest of the population. These attempts have not fundamentally improved things, however. And so they turned to reforms: to strengthening the center, to purely organizational changes and, ultimately, to substantive changes granting market coordination a perceptible role within the centrally managed economy. This last mentioned way is what Hungary has been pursuing with its new economic mechanism since 1968. That too was only partly successful. Little only has changed substantively in all other countries. Even the attempts to revive the economy through some democratization have failed. The causes for these failures are geopolitical, political and ideological in nature, furthermore the vested interests of those that want to keep the old system what it is, and finally the inadequacies of the reform attempts themselves.

The possibility to reform the centrally planned economy exists only to some extent. This is a system that is limited by its supplies. Only in that sense it forms an alternative for capitalism limited by demands. The disadvantages of this system, mainly in the field of efficiency, deprive it of any successful long-term competition against capitalism.

#### The Symposium Papers:

Prof Dr Hans-Juergen Krupp, president of DIW: "The Objectives of the Symposium"  
Dr Heinrich Machowski, DIW: "Weak Efficiency and Foreign Economy Burdens in CEMA Agriculture"  
Dr Maria Elisabeth Ruban, DIW: "Stagnating Standard of Living in Eastern Europe"  
Dr. Doris Cornelsen, DIW: "The GDR"  
Dr Hans-Hermann Hoehmann, Bundesinstitut fuer ostwissenschaftliche und internationale Studien, Cologne: "The Soviet Union"  
Dr Jochen Bethkenhagen, DIW: "Hungary"  
University Lecturer Dr Gerhard Fink and Ilse Grosser, M.A., Wiener Institut fuer Internationale Wirtschaftsvergleiche: "Bulgaria"  
Prof Dr Friedrich Haffner, Munich University: "Shadow Economy: Substitution for Reform?"  
Dr Wolfgang Teckenberg, Kiel University: "Economic Reforms from the Sociological Vantage Point"  
Prof Dr Kazimierz Laski, Linz University: "Economic Reforms in Eastern Europe as a Subject of Economic Theory"

Table: Overall Economic Development Indicators in the CEMA Countries  
(Annual Percentage Changes)

Countries	1981	1982	1983		1984	1975/70 <sup>1)</sup>	1980/75 <sup>1)</sup>	1985/80 <sup>1)</sup>
	Actual		Plan			Actual	Plan	
Produced National Income								
Bulgaria	5.0	4.2	3.0	3.8	3.8	7.8	6.1	3.7
CSSR	-0.8	-1.0	2.2	2.0	2.2	5.5	3.7	2.0-2.6
GDR	4.8	2.6	4.4	4.2	4.4	5.4	4.1	5.1
Poland	-12.0	-5.5	4-5	2.5	2.6	9.8	1.7	3.5-5.6
Romania	2.1	2.8	3.4	5.0	7.3	11.3	7.2	6.7-7.4
Hungary	2.5	2.6	0.3	1.0	1.5-2.0	6.2	3.2	2.7-3.4
CEMA(6) <sup>2)</sup>	-1.4	0.2	3.2	2.9	3.9	7.8	3.9	4.2-5.1
USSR	3.3	3.5-4.0	3.5-4.0	3.3	3.5-4.0	5.7	4.1	4.0
CEMA(7) <sup>2)</sup>	2.0	2.9	3.8	3.2	4.0	6.3	4.0	4.1-4.3
Industrial Gross Output								
Bulgaria	4.8	4.6	4.6	4.8	5.0	9.1	6.0	5.1
CSSR	2.2	1.0	2.7	2.4	2.9	6.7	4.5	2.7-3.4
GDR	4.7	3.1	4.1	3.8	3.6	6.4	5.0	5.1
Poland	-10.8	-2.1	6.2	1.6	4.5-5.5	10.4	4.6	3.8-5.4
Romania	2.6	1.1	4.8	6.6	6.7	12.9	9.5	7.6
USSR	3.4	2.9	4.0	3.2	3.8	7.4	4.5	4.7
Hungary	2.3	2.0	0.7	2.0	1.5-2.0	6.4	3.4	3.5-4.1
Gross Agricultural Output								
Bulgaria	-5.9	4.7	-4.0	2.7	3.1	3.0	0.8	3.4
CSSR	-2.6	1.1	2.2	2.8	2.2	2.7	1.8	1.4-1.9
GDR	1.6	-4.0	0.9	.	6.0	2.7	1.4	.
Poland	-0.8	-4.1	1.1	.	1.5-2.0	3.7	-1.8	2.0-3.8
Romania	-0.9	7.6	-2.0	5.1-5.6	5.4-6.0	6.5	4.0	4.5
USSR	-1.0	5.1	5.0	10.5	6.4	0.8	1.2	4.8
Hungary	0.0	5.0	-3.2	.	3.5	4.7	2.3	3.2-2.8
Industrial Labor Productivity <sup>8)</sup>								
Bulgaria	2.8	3.8	5.0	.	.	6.8	5.2	.
CSSR	2.6	2.5	2.2	.	.	6.0	4.1	2.3
GDR	4.2	2.6	3.4	4.0	3.5	5.3	4.5	5.2
Poland	-10.6	4.0	8.0	.	.	7.7	3.8	.
Romania	2.4	1.8	2.7	9.2	8.0	6.4	6.7	7.0
USSR	2.7	1.9	3.5	2.9	3.4	6.0	3.2	4.2
Hungary	4.5	4.1	3.1	.	.	6.2	4.6	3.8
Gross Capital Investments								
11) 9)11)								
Bulgaria	10.5	3.5	-4.0	7.7	24.4	8.6	4.0	0.9
CSSR	-6.7	-1.1	2.2	-2.1	-0.0	8.0	2.8	0.0
GDR	2.7	-5.2	-0.0	-5.0	.	4.8	3.4	-2.1
Poland	-22.3	-12.1	7.2	-1.6	-2.8	17.5	-3.0	3.5-3.6
Romania	-6.7	-2.5	2.9	0.7	4.0	11.5	8.5	5.2
USSR	3.6	3.8	5.0	3.2	3.9	6.9	3.4	1.7
Hungary	-6.1	1.0	-3.3	-10.0	-10.0	7.0	2.4	0.0

Table (continued)

Countries	1981	1982	1983	1984	1975/70 <sup>1)</sup>	1980/75 <sup>1)</sup>	1985/80 <sup>1)</sup>
Retail Trade <sup>10)</sup>							
Bulgaria	4.5	4.9	3.8	4.1	4.2	7.7	4.1
CSSR	4.2	-2.1	2.9 <sup>11)</sup>	1.0	1.9	5.4	1.5
GDR	2.5	1.2	0.7	3.0	2.2	5.0	4.0
Poland	-3.0	-15.4	9.0	.	.	10.8	3.6
Romania	4.3	.	0.5	3.0	3.0	8.1	7.8
USSR	4.4	0.0	2.7	5.4	5.4	6.3	4.5
Hungary	3.2	1.3	0.3	.	.	6.2	2.6
Average Wages and Salaries <sup>12)</sup>							
Bulgaria	5.2	2.6	2.4	1.5	.	3.3	5.8
CSSR	1.6	2.3	1.9	.	1.5	3.5	2.8
GDR	2.4	1.9	1.3	3.0	2.2	3.3	2.8
Poland	27.4	50.7	25.2	16.0	16-18	9.8	8.9
Romania	4.6	8.8	3.0	4.0	.	4.3	7.0
USSR	2.1	2.8	2.4	1.9	2.2	3.6	3.0
Hungary	6.2	6.6	4.8	3.7	4.8-5.0	5.6	7.2
Export <sup>13)</sup>							
Bulgaria	10.8	10.3	8.6	.	.	14.1	14.5
CSSR	9.4	9.0	9.0	.	.	11.3	11.4
GDR	15.4	14.1	12.0	.	.	12.8	10.2
Poland	-14.2	12.4	11.1	11.0	12.8	19.3	8.7
Romania	12.5	-8.3	6.0	.	.	19.1	15.3
USSR	15.0	10.6	7.5	.	.	15.9	15.6
Hungary	6.5	8.4	15.3	7.0	6.3	13.9	7.2
Import <sup>13)</sup>							
Bulgaria	20.2	10.2	7.9	8.0	8.1	19.6	9.5
CSSR	5.9	9.2	9.3	.	9.0	13.7	10.0
GDR	6.4	4.3	9.0	13.0	5.0	14.1	9.9
Poland	-10.8	-9.8	10.6	14.0	14.8	23.7	6.7
Romania	-2.8	-21.8	-4.3	13.8	13.8	17.7	17.4
USSR	18.4	7.2	5.6	7.7	10.0	20.4	10.8
Hungary	4.8	3.3	12.4	0.0	0.0	15.9	4.8

Footnotes: 1983 data are provisional. Middle-range planning data for Poland refer to 1983 to 1985.

1) At annual average. 2) Weight in percent of total produced national income: Bulgaria 2.1; CSSR 5.1; GDR 6.7; Poland 8.3; Romania 4.8; Hungary 2.3; CEMA(6) 29.3; USSR 70.7; cf. "Economic Survey of Europe 1977." 3) Estimated. 4) Used national income. 5) Turnover. 6) 1980=100. 7) Net. 8) Gross output per worker. 9) 1982=100. 10) Computed from so-called physical volume index. 11) At prevailing prices. 12) State sector, nominal. 13) At current prices and prevailing exchange rates, fob-values; Hungary's imports cif. 14) Turnover (import and export). 15) Trade with socialist countries. 16) Trade with CEMA countries (real).

Sources: Statistical yearbooks of CEMA member countries, various volumes and their monthly reports and plans and plan fulfilment reports.

INTERNATIONAL AFFAIRS

DEFICIENT PRICE, MARKET MECHANISMS HINDER CEMA INTEGRATION

Zurich NEUE ZUERCHER ZEITUNG in German 9 Jan 85 p 13

[Text] Since the economic situation of most CEMA countries has stabilized, they are again talking about greater integration in the Eastern community of ten, which will celebrate its 36th anniversary on 25 January. More joint projects are to be constructed. Also recommended is a more intensive division of labor, and it is hoped to achieve this by production specialization and cooperation.

The CEMA center at Kalinin Prospekt 56 in Moscow is proud of the fact that the community is now active on three continents. The underdeveloped members in Asia (Mongolia and Vietnam) as well as in America (Cuba) do, though, require considerable aid which is in fact to be increased.

Integration Policy in the Sign of Consolidation

The extensive presence of the community is also reflected in the fact that already seven developing countries have been assigned observer status. They are: Ethiopia, Angola, Afghanistan, the People's Republic of Yemen, Laos, Nicaragua and Mozambique. Moscow's CEMA secretariat emphasizes that there are not at the present time any concrete plans for expanding the ten. On the other hand it is conceivable that a country with observer status may move up to full membership, as happened in the case of Cuba. However, any country wishing to join CEMA must obligate itself to make the construction of socialism and, subsequently, communism the guideline of its development.

As far back as 1964 a treaty of association was signed with Yugoslavia. Ever since the Balkan state has shared in CEMA operations to a limited extent. Cooperation extends to 23 spheres. Up to now, 120 multilateral implementation agreements have been signed on economic, scientific and technical cooperation. Almost half Yugoslavia's foreign trade involves the CEMA countries. Another treaty of cooperation with Finland goes back to 1973. To date 60 agreements were concluded on multilateral economic and scientific-technological cooperation, affecting machine construction, the chemical industry, the paper and pulp industry, transportation and construction, forestry and environmental control.

In 1975 CEMA signed cooperation treaties with Iraq and Mexico. Cooperation with these two countries is coordinated by mixed commissions. Another cooperation treaty was concluded in 1984 with Nicaragua. Moreover, according to reports by the CEMA secretariat, the member countries provide technical aid to 101 developing countries in Asia, Africa and Latin America.

#### CEMA as a World Economic Power

The organization now represents an important factor of the world economy: The community has some 10 percent of the world population and extends to 20 percent of the earth's surface. According to official information from the Moscow headquarters, the member countries earn 25 percent of the world's national income, with 70 percent going to the account of the USSR. The "Red economic community" accounts for a third of world industrial production, a fifth of world farm output. Admittedly, most CEMA countries subscribe to self-sufficiency: Their share in world trade amounts to a modest 10 percent, and this restricts the Soviet Bloc's importance for the world economy. The CSSR, for example, proudly points out that almost 90 percent of commodities on sale there originate in domestic production; in West European countries domestic production usually accounts for less than half such commodities.

As an organization of international cooperation, CEMA lacks the power to make overall and detailed decisions. In contrast to the EC, it cannot be considered a supranational organization. All decisions must be unanimous. So that at least some limited cooperation may be achieved in some sectors, it has been agreed to apply the unanimity rule from case to case and only to the "interested members": A joint project requires the consent of only the participating states. Those not involved, do not vote either. It is, therefore, its enormous economic and military superiority rather than the charter of the community of ten, which permits the Soviet Union to play first fiddle in CEMA.

#### Efforts for Multilayered Integration

Integration in CEMA proceeds at several levels. Accordingly, the following types are distinguishable:

1. Reciprocal consultations on the most important policy tasks in the economic and technical-scientific fields.
2. Bilateral and multilateral plan coordination.
3. The drafting of long-range target programs.
4. Cooperation within the scope of international economic organizations.

Reciprocal consultations represent the most important basis for the drafting of the national economic plans which are subsequently coordinated at international level. In the course of these consultations, the members discuss the most important trends of long-term economic cooperation in such vital sectors as energy, raw materials, agriculture and consumer goods.

Plan coordination initially occurred in the field of international trade which is still being handled by barter. Later some aspects of national economic policy were also coordinated. The "coordinated plan for multilateral integration measures" is agreed on the basis of plan coordination. This represents an independent section of the various national five-year plans. They include the following fields of cooperation: a) The construction of joint projects, b) international specialization and cooperation in production, c) cooperation in science and technology, d) multilateral measures to speed up the economic development of Cuba, Mongolia and Vietnam.

In 1975, joint investments for the 1976-1980 Five-Year Plan were first agreed within the framework of the "coordinated plan for multilateral integration measures." They achieved a value of 9 billion transferable rubles, 7 billion of which were to be realized in that plan period. In 1981, the 35th CEMA Council Meeting decided investment projects in the amount of 2.5 billion transferable rubles for the 1981-1985 Five-Year Plan. In view of the increasing complaints by the smaller member countries that almost all joint projects are being carried out on USSR territory, this year's CEMA Council Meeting decided to construct some joint projects on the territories of the smaller Eastern Bloc states (see NEUE ZUERCHER ZEITUNG No 262).

Cooperative projects in CEMA are carried out by barter, because there is no capital market for the transferable ruble, their common currency. Participation therefore takes the shape of commodity supplies, services and manpower. These performances are credited and repaid by products turned out by the respective projects. The construction of a natural gas pipeline, for example, is paid for by natural gas supplies. As there is no such thing as "international socialist property," the joint CEMA project remains the property of the member country where it was constructed.

Another type of investment participations are credits promised the Moscow International Investment Bank (IIB) which acts as a CEMA credit institution. Unfortunately, the immobility of the transferable ruble has a particularly deleterious effect here, so that credits are strictly tied to the commodity supplies and services respectively financed. Still, the IIB has shown its mettle in the procurement of hard currency loans to finance investment projects in CEMA. Such loans facilitated the expansion of the Tatra truck plant in the CSSR, for example. However, this project was not part of a joint CEMA project, in other words not constructed on a multilateral basis. Up to the end of 1983, the IIB financed a total of 83 projects. So far products worth 19 billion transferable rubles were exported to CEMA members from these enterprises.

#### Productivity Improvement by National Specialization

More and more significance is assigned international specialization and cooperation of production, which may proceed bilaterally or multilaterally. The concern is to concentrate the manufacture of some products in those countries which offer the best conditions. In some instances, some of the factories built taking into account the appropriate criteria satisfy the major part of CEMA demand for their respective products. For example, 80 percent of



bus production originates in the USSR and Hungary. The CSSR exports 51 percent of its chemical products to the CEMA region. According to a treaty concluded in 1969, each member country specializes in specific computer and peripheral devices. More than 30 research institutes and 70 factories are involved in this program. Specialization and cooperation is emphasized in machine construction, too. In this sector, 90 multilateral implementation agreements have been concluded, involving more than 10,000 commodity headings. Still, only 18 percent of intra-CEMA exports are accounted for by products manufactured on the basis of specialization and cooperation agreements, though the figure is almost 40 percent for machine construction.

Forecasts for technical-scientific development through 2000 are being drafted within the framework of CEMA. As a rule this merely amounts to taking over Western predictions. Research is much spurred on especially in the field of robot and microelectronic equipment. The members also endeavor to establish uniform standards. It is still the most important task as quickly as possible to introduce new developments and research results to production. This is the sector which continues to present CEMA with its most serious problems.

The CEMA Council once again decided on more aid for the underdeveloped members Cuba, Vietnam and Mongolia. The chief Vietnamese delegate, Huu, also urged extensive aid for Cambodia and Laos, because no economic recovery could happen in Vietnam without the restructuring of these two countries. Future measures are designed to gradually adjust the development level of the underdeveloped CEMA members to the industrial countries of Eastern Europe. According to Western estimates, the USSR alone provides Cuba with an annual aid of around \$400 million. Mongolia and Vietnam receive \$150-450 million each.

#### Handicapped Internationalization Under Soviet Domination

At the 1978 and 1979 Council Meetings, the CEMA countries general decided on five "long-range target programs of cooperation" through 1990. They affect the sectors of raw materials and fuels, agriculture and the food industry, machine construction, industrial consumer goods and transportation. In view of the persisting economic problems, it is not possible to find the 80-90 million transferable rubles initially planned for the respective projects. Implementation will therefore be on a much smaller scale.

The so-called international economic organizations, a kind of "eastern multinationals," have not made as much headway as originally planned. There are 40 such organizations which carry on a specific type of common planning for the sectors they dominate. They are also intended to achieve greater specialization and cooperation within CEMA. However, no multinational capital networking is permitted. An example is the Interchim international economic organization. This deals with the specialization of the manufacture of chemical products.

Integration in CEMA must cope with great difficulties. By far the most serious is the lack of a central economic plan. A relevant concept by Nikita Krushchev met with violent resistance by the Romanians, in particular, who saw this as the preliminaries for the loss of their economic independence. Now

only some beginnings of limited joint planning are discernible within the framework of the coordination of long-range target programs and international economic organizations. The lack of an efficient market mechanism is another factor responsible for the poor state of integration. The planning and control mechanisms in the various CEMA countries tend to vary considerably, and this again has an adverse effect on integration. Then there are the enormous differences in the standard of economic development of the various member countries and the nonconvertibility of the national currencies and the transferable ruble. No price mechanism exists even in intra-CEMA trade; the members orient themselves by world market prices. Finally it is a fundamental disadvantage that the superpower USSR dominates the community, a circumstances which causes the other member states to strenuously endeavor maintaining their national independence.

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INTERNATIONAL AFFAIRS

FINLAND DISAPPOINTED IN TRADE WITH SMALL CEMA COUNTRIES

Helsinki HELSINGIN SANOMAT in Finnish 12 February 1985 on page 25 carries an article detailing experiences during 10 years of trade cooperation between Finland and CEMA countries. KEVSOS agreements with Bulgaria, Czechoslovakia and Hungary have been in effect since 1975, with GDR and Poland since 1978. Finally in the beginning of 1985 customs duties were eliminated between these countries. For test see JPRS-WER-85-034 dated 28 March 1985.

CSO: 3617/78-A

CZECHOSLOVAKIA

# NATIONAL GOAL OF AGRICULTURAL SELF-SUFFICIENCY VIEWED

Prague HOSPODARSKE NOVINY in Slovak No 4, 1985 pp 8-9

[Interview with Comrade Jan Janovic, SSR Minister of Food and Agriculture, by Jozef Dunajovec: "Self-Sufficiency as a Factor in Economic Efficiency"]

[Text] In the 35 years since the beginning of socialization the volume of agricultural production in Slovakia has increased from Kcs 15.2 billion to Kcs 37 billion, with the per hectare production increasing by a factor of almost 2.7. The increasing equipment and facilities available to agriculture have not only relieved people of many of the more difficult agricultural tasks, but also freed up a total of some 560,000 workers for other occupations. The value of machinery and equipment per agricultural employee has increased since the early 1950's from Kcs 2,740 per worker to Kcs 62,000 per worker. This has allowed labor productivity to increase by a factor of 5. And although the population of Slovakia has increased over this time period by 1.8 million and the amount of agricultural land per capita has declined from 0.86 hectares to 0.48 hectares, we are producing today, primarily with our own resources, enough meat for a per capita annual consumption figure of 75.5 kilograms, which is 2.5 times the level of the early 1950's. In this interview we explore ways to build upon these positive trends with the SSR minister of agriculture and food, Comrade Jan Janovic.

[Question] We have become accustomed to increasing the intensity of food production primarily by increasing the allocation of capital equipment to agriculture, utilizing worker initiatives, and by constant exhortations to get involved in those areas where we have felt that we are behind. We have successfully restructured in a truly revolutionary way several sectors, primarily grain production and beef production, and we have made progress in developing the fodder industry to the point where we now experience only occasional deficiencies in the composition of fodder mixtures and in the feeding of swine and beef cattle. It is in plant production, however, that there are a significant number of crops for which we are not achieving yields equal to those of the 10 most intensively developed countries of the world. We not only want to be among these top 10 countries, but we must be if we are to feed our population with our existing agricultural soil stock. What are your long-range objectives, under the conditions of the SSR, for implementing a program of food production based on the principle of self-sufficiency?

[Answer] The most important factor in reaching the rational limits of self-sufficiency in food consumption is undoubtedly the acceleration of research

and development, the proper focusing of these activities, and a substantial increase in their contribution to intensification and production efficiency. Also of critical importance are purposeful measures to improve training programs. Specific decisions, and in particular the capital investment program and related technical production policy in conjunction with systemic mechanisms within the management system, must become more effective in reducing investment, materials and power intensiveness, and in improving overall efficiency, with the objective of regulating effectively the level of personal consumption and strengthening economic incentives for final production results. At the same time many have pointed out that because of a number of limitations related to material, power, ecological, socioeconomic and even foreign trade considerations these contributions may not always take the form of quantitative increases, but rather of qualitative changes such as increasing levels of coordination between primary producers and raw materials processors and, especially, with consumers. In other words, what will be decisive is not only the rate of increase of production, investment and the like, which our long-range plan through 1995 has to some extent already mapped out, but the new requirements and objectives for the development of production, namely increased quality and efficiency, that we are incorporating into our evaluative criteria. While we have become accustomed to attaching great importance to changes of a biotechnological character, it is also clear that the role of natural conditions in the development of a modern socialist agriculture will not decrease. Developments will inevitably evolve in the direction of the improved utilization of all domestic, economically accessible natural resources.

[Question] Under our conditions top priority should certainly be accorded to the improved protection and comprehensive utilization of the soil. Fortunately its fertility is renewable, thereby representing an inexhaustible resource for the national economy, a fact that was emphasized by the 11th CPCZ Central Committee Plenum at the end of last year.

[Answer] We could utilize as much machinery, artificial fertilizers, irrigation and other yield-maximizing elements as we would like, but if the soil were not of the requisite quality all these efforts would be in vain. The task before us is to take this human experience thoroughly into account and base our actions on it, especially since our actions here have serious implications for the future.

Projections indicate that over this decade and the next the population of the SSR will increase by about 630,000. Even if we were successful in retaining the current area of agricultural land, knowing that an additional 600,000 or so individuals will be living and working in our territory, by the year 2000 there would be only about 0.27 hectares of agricultural land per capita, which is fully 12.5 percent less than currently. This means that a single hectare will have to support a high standard of living for four people. This only serves to emphasize the impossibility of replacing soil with other factors of production, the necessity of purposeful fertility-enhancement measures, and the necessity for the effective utilization of every are of fertile soil.

Because of stricter measures instituted by party and governmental organizations we have been successful in recent years in stabilizing the area of agricultural land. This is adequate for current requirements, but will not be sufficient

for upcoming generations. We must make efforts to increase the amount of agricultural and especially arable land and, in view of the continually poor quality of this land, purposefully increase its fertility, while maintaining the fertility of the most productive land.

In Slovakia alone we have, bear in mind, more than 500,000 hectares of acidic soils that require corrective liming, 1.2 million hectares that are threatened with erosion, 115,000 hectares of low fertility sandy and gravelly soil, and 114,000 hectares of land that has been devastated by ash and other emissions. Drainage systems should be built on almost 200,000 hectares and irrigation systems on some 650,000 hectares. We have a professionally prepared fertility enhancement program, to which we are attaching great importance. This program will require, however, the investment of some Kcs 40 billion in soil enhancement by the year 2000.

[Question] The price of self-sufficiency in food, as you have pointed out, will not be cheap, and our society has an interest in the rational implementation of this program, and in its effective utilization. How would you break down this overall objective in terms of specific programs?

[Answer] During the Eighth 5-Year Plan we intend to build irrigation systems on 80,000 hectares, to drain 70,000 hectares, to construct 16 million cubic meters of small reservoirs, and to upgrade 230 kilometers of water flows. Using noninvestment means we intend to improve the fertility of more than 400,000 hectares. This program represents work and material deliveries valued at more than Kcs 10 billion. Because it involves the assurance of our food supply, it is a program the implementation of which should be a top priority of our entire society. However, its implementation will be feasible only with the financial cooperation of agricultural enterprises and, as in many other countries and in our own country to date, with the large-scale financial support of the state. We must be able to count on both when planning for the formation and utilization of our developmental resources.

Thanks to the currently applicable regulations governing subsidies for this type of work we will overfulfill our construction program for irrigation and drainage projects during the Seventh 5-Year Plan. Any further changes in the availability of public funds to this sector will, however, seriously threaten future versions of this program.

We have reached a stage where we can no longer proceed with intensification based on isolated improvements, educational activities, the selection of positive experiences from leading enterprises and their more or less nonbinding dissemination to lagging enterprises. This imbalance and lack of comprehensive application of intensification factors, which includes personnel training and the lack of equipment integration throughout the system, beginning with planting and ending with the harvest and post-harvest cleanup, is evident in an atomized approach to production increases which has slowed down our efforts at intensification. We have a serious imbalance in equipment and technological availability between individual phases of the production cycle. This is true both for specific final products and for production as a whole, both plant and livestock. These disproportion and disharmonies in the equipment and facilities available to agricultural enterprises (and to sectors as a

whole) have negative economic consequences and retard progress in the managerial sphere as well. The uneven industrialization of agriculture and the uneven availability of factors that must act together is one of the reasons for the increasing costs of production, the ineffective utilization of those production factors which may be available in optimal amounts, and for the stagnation in interenterprise cooperation and the inefficient utilization of the modern inputs provided by production services.

We must see to the development of an optimal mix of those factors that affect the work both of enterprises and of primary production service organizations. In addition, however, all cooperating economic sectors must responsibly fulfill the objectives of their own development programs. Only then can we achieve a favorable economic impact on production and a proportional influence from all the factors in intensification. We need, in other words, to develop a harmonious system, a synchronized approach to problem solving, close interrelationships, and comprehensiveness. In this sense we are at the beginning of a new stage in the planning, administrative and organizational work of the food sector and the entire food-related economy, as well as in relation to the binding congress program of the party.

[Question] At the 10th JZD Congress both delegates and guests expressed great interest in a book published by your ministry entitled "Biotechnical Systems of Plant Production." We published your extensive article on this subject in HOSPODARSKE NOVINY No 36, 1983. What are your current plans for the practical implementation of these ideas?

[Answer] During the current 5-year plan we began, more or less experimentally, to implement biotechnical systems for individual plant crops as well as for specific types of livestock breeding. This is by no means a novelty for socialist countries, but represents the first domestic experience with a system of intensity-enhancing factors. Their comprehensive interaction indicates that they would make possible significantly increased production at substantially reduced costs. Take an example from the Sala JZD in Galanta Okres. This cooperative applied this systemic technique to the production of corn on its entire 40,000 hectare operation. During the first 3 years of this 5-year plan it achieved yields of 6.5 tons of grain per hectare, which was almost 1.3 tons more than on control fields. This differential represents an additional 52,000 tons of grain from this land, which has a current value of about Kcs 104 million. In addition to increased grain production this system resulted in greater agrotechnical discipline, improved equipment utilization, and an overall improvement in work organization. In particular, equipment utilization improved by a factor of 2 in comparison with traditional methods and, given a basic unit of 1,000 hectares of corn, the new method saved Kcs 215,000 in material costs and 1,380 hours of labor.

It must be added that this program was conducted with the active cooperation of Hungarian production service enterprises. The successful implementation of this biotechnical system represents a more sophisticated system of work organization, greater comprehensiveness in the utilization of intensification factors, the mastery of a higher degree of discipline in all areas, and in the final analysis in more, and less expensive, food raw materials.

[Question] The SSR Ministry of Agriculture and Food has adopted the principles of similar systems for almost all crops as well as livestock production systems. Now their implementation requires access to deliveries of the necessary materials, the availability of the necessary services, seeds, fertilizers and protective materials, despite the fact that their expansion is dependent on the possibilities offered by the national economy...

[Answer] One can state immediately that we are dealing here with a qualitatively new way of organizing work and with a new element in mass production management, one which includes the preproduction stages. This also represents, however, a new element for the planning process, which must become comprehensive and include not only the agricultural production and processing complex, but also related divisions of the national economy. This was emphasized as the fundamental management principle by the 11th CPCZ Central Committee Plenum. In 1983 biotechnical systems were installed on 90,000 hectares in the SSR, and last year cooperative agreements were concluded between users of the systems, i.e., between large and experienced enterprises and their users, to install systems on an additional 300,000 hectares. These contracts were signed based on organizational, planning, and economic principles that have been established by the SSR Ministry of Agriculture and Food. In particular, requirements for the importing of equipment, including necessary materials from Hungary, were not even fully satisfied. Particularly with regard to sunflowers, but for other crops as well, we will have to contribute increasing amounts of domestic inputs, initiative and creativity to this new form of plant production. There certainly is no doubt that our enterprises are capable of generating high yields. This was confirmed again by last year's record harvest. The question now is one of transferring what we know from grain production at a higher methodological level to the raising of corn, potatoes and beets, as well as to technical crops such as hops, flax, hemp and to the mass production of fruit and vegetables. Even though we are emphasizing above all the fulfillment of the grain and protein program as established by the 16th CPCZ Congress, we cannot forget to develop the conditions in those sectors where we have so far made little progress with modern growing techniques. This includes the production of sugar beets, potatoes, but especially the growing of fodder crops on arable land and, in particular, the comprehensive utilization of pastures and meadows. All of these sectors are waiting for a comprehensive approach to their management and for coordinated efforts, i.e., for disciplined biotechnology. In addition to technology we must train people to perform these progressive types of jobs, both during the teaching process of the younger generation and through in-service training programs for practitioners.

[Question] What other enterprises or production service organizations contract to assist with the development of a systemic approach to the intensification of agricultural production?

[Answer] In addition to Sala, the pioneers in these efforts include senior managers at Okoca, Tomasoviec, Vajnor, Lehnic, Bojniciek, Svodina, Kotesovej, and at other leading enterprises, all of which have combined to take upon themselves the role of organizers and disseminators of such systems at other cooperating enterprises. This sector considers the dissemination of biotechnical systems to be among its top priorities and will develop the conditions



for the implementation of these systems consistent with our means and, primarily, will serve as disseminators and resources for this new field of knowledge, for increasing technical discipline and work quality.

Biotechnical systems for individual crops have been successfully installed at the Nitra Agrokomplex, the Slusovice JZD, and elsewhere. They are being installed at the Slovosivo, Cukor-Cukrovinky and Czechoslovak Tobacco Industry organizations, for the production of rape seed without erucic acid by the Pragua Oil Industry Plant and by other mature production and service enterprises. I could name a number of other enterprises in Slovakia, Moravia, and Bohemia which have taken steps in this direction. Plans of the SSR Ministry of Agriculture and Food call for the extension of these systems to almost 50 percent of the arable land over the next year.

[Question] As discussions at the 10th JZD Congress revealed, organizations are beginning to set up closely managed comprehensive efficiency teams which have the objective of integrating practice with scientific research, with development professionals, seed specialists and improvers, and are making plans to utilize foreign experiences as well. You clearly think that it is proper for cooperation to continue to develop along these lines among production enterprises of CEMA countries.

[Answer] Biotechnical systems should be upgraded with all progressive findings from abroad, especially those that facilitate the more effective use of equipment and material inputs. It is desirable that the development and upgrading of specific crop-raising or breeding systems be the responsibility of specific individuals from our scientific community, state and party administration and, of course, and primarily, managerial representatives of individual critical sectors such as general engineering, chemicals, construction, transportation, etc. However, we cannot accept their programs only as assistance. We cannot allow the programs to become convenient for us. Individual machines, lines of machinery, as well as transportation systems and the handling and processing of raw materials must all be smoothly coordinated with each other. We are already developing the preconditions for this at the center, particularly in the area of comprehensive planning and the adoption of economic suggestions. Unfocused technological folklore is no longer of any assistance to us, nor is preaching about the virtues of the expansion of biotechnology. On the contrary, our task now is to develop discipline within the mammoth organizations in our national economy. Progress and increased efficiency in these megaorganizations will filter down in the form of increased food production efficiency at the enterprise level.

Experiences from our sector indicate that it is also necessary to improve the entire system for managing R&D, especially at the interface between development and production, in the development of organizational forms and their mutual interaction. The actual production of scientific-technical findings at the R&D stage represents only the potential impact of the scientific and technical revolution, while the practical utilization of these findings in production may be considered the real impact. Current experiences, not only in our country, indicate that at the interface of these two phases serious organizational and economic barriers arise and that it is not possible to overcome the problems which result from a certain fragmentation of the

innovative sphere on the one hand and the complex nature of its use requirements under practical conditions. In the USSR and other CEMA countries increasingly high priority is being given to forms under which the entire complex of technical-consulting activities involved in the practical application of R&D findings are resolved by economically motivated khozraschot organizations in conjunction with science and production. We are currently evaluating the experiences of other CEMA countries as well as the techniques we ourselves have developed for the practical application of such findings related to the implementation of biotechnical systems.

[Question] The design of biotechnical systems for plant and livestock production was handled primarily by sectoral research institutes and the Academy of Sciences. Nevertheless, you reached only the first stage of the comprehensive application of this system to the most pressing practical problems. What are your future managerial objectives in the area of research and development?

[Answer] What we have is a system of independent, small research and improvement worksites staffed with small problem solving collectives. These have worked more or less in an isolated fashion, and it has not been possible to outfit each one of them comprehensively with all the necessary specialists and the needed instrumentation. An analysis has shown that research in this form is not capable of systematic research activity and implementation.

In addition we have a biotechnical and technical service base as the link between research and practice. Its objective is the rapid transmittal of research results to all enterprises. These also, however, operate in isolation, without any systematic collection of research results. If we want to improve this situation radically and place science in charge of the further intensification of agriculture and the food industry then it is essential that we adopt here as well a systemic approach that designates the proper level of integration between all the individual elements of scientific and technical development, research, development and production, and that provides for differentiated personnel and technical requirements.

Our program includes the gradual construction of more concentrated planning institutes for specific basic sectors, namely the soil, plant production, livestock production, the food industry and economy. It is our intention to concentrate here state-of-the-art instrumentation, highly qualified personnel, geneticists, microbiologists, biochemists and cyberneticists who are capable of generating high-level research activity, especially in those areas that would have a major influence on the intensification process throughout the food production process. We want to affiliate pertinent service organizations with these planning institutes in order to create a strong implementational base for the institutes.

Another fact that supports greater concentration of effort is that our research is greatly dependent on international scientific and technical cooperation with the CEMA countries. If we are to be more successful than in the past we must have selected institutes with high technical and qualificational levels that are capable of operating on equal terms with the large and well-equipped institutes of the USSR, GDR, Hungary, Bulgaria, and other countries.

At the specialized institutes we will be adding improvement centers for crops and livestock located throughout Slovakia, so that upgraded crops and breeds will correspond as much as possible to the natural conditions of various areas. Institutes and scientific workplaces also require developmental workshops for the development and production of small runs of supplementary machines and equipment. Agriculture is also unusual because it possesses a close mutual connection between individual production sectors and because it is necessary to incorporate individual findings into scientific soil management systems for both plant and livestock production. In view of soil differences and large regional differences, scientific management systems cannot be in the form of a single model for the entire republic. Instead they are designed to correspond to specific soil and climate conditions to facilitate scientific-technical progress in specific areas.

We must therefore maintain in the typical production areas area application stations which would develop for specific model enterprises and then implement a scientific management system and, following testing, apply it to the entire area in question.

These area stations are being established through a merger of existing area stations with selected enterprises of Slovosivo, Semex, and the Agrokomplex VHJ. The stations will serve as locations for the in-service training of agricultural professionals, as a site for new technology days, and as coordinators for economic cooperation in the application of comprehensive crop and breeding technological systems to additional enterprises, including the delivery of the necessary material inputs. This program of measures has not as yet met with full understanding.

[Question] On the other hand, certain of the largest cooperatives and state farms are firmly at the forefront of technical progress and are capable of expanding this activity, even though they are not some sort of state institute. What is to be their role in the future development and in the administrative system of organizations?

[Answer] In our sector we have a number of mature agricultural enterprises, JZD's and state farms, along with food industry and machine building operations that for many years now have been developing new types of machinery, auxiliary equipment and technology. These are short-term technical development projects that plug certain gaps in the application of scientific and technical development. To some extent they supplement our industry. For instance, the Liptovsky Mikulas State Farm has specialized in the development and production of universal rotating weeders, the construction of small hydroelectric plants and the development of a microelectricity plant of up to 2 kilowatts, on equipment for waste water purification, and on other equipment mainly for mountainous regions. The Cifer JZD is successfully developing and producing machinery for the distributed harvesting of corn, the Kotesova JZD is focusing on the development of equipment that will supplement existing vegetable growing equipment, especially for carrots, while the Sady and Torysou JZD has developed and delivered to a number of agricultural enterprises machines for hay harvesting and for soil preparation.

In those instances when a specialized machine building enterprise cannot take on such jobs we will have to lend our strong support to this type of activity. For instance, we named the Lipstovska Osada JZD as the coordinator for the development and production of a milking machine for sheep, equipment for the processing of sheep's milk and mechanized lines for the processing of steamed cheeses, all of which will have an important influence on the development of sheep raising. The Monta plant in Holic is successfully developing for the entire sector small packaging equipment which was previously imported for hard currency, and other innovative products for agriculture and the food industry. I could name a number of other enterprises in agriculture as well as in the food industry and procurement which, through their own initiative, have contributed to technical progress by producing various machines that are in short supply as well as equipment for the needs of food industry VHI's. In our sector we count on about Kcs 700,000 of annual output of this type of production.

We want, however, to avoid haphazardness and to direct technical progress to enterprises in accordance with sector-wide objectives. It is of fundamental importance, however, to develop a means to finance scientific and technical development. To implement our programs we desperately need a sectoral technical development fund, which we have not as yet been successful in setting up. Only with difficulty did we succeed in incorporating into the "Guidelines for Improving the Management System of the Agrocomplex" a provision for the undertaking of technical development at JZD's and state farms, but the question of the fund remained open and, especially, its sources at the sectoral level. We are convinced that the sector not only can be, but must be the key place within the system for scientific and technical development. It is also necessary at planning locations to provide in the budget for certain material and technical resources for the development and production of prototypes, the occasional small-run production of machines and equipment, and the deliveries of the machine tools necessary for these operations.

[Question] The 16th CPCZ Congress and especially the 11th CPCZ Central Committee Plenum emphasized the need for effectiveness in the intensification process, and in particular to deal with inputs that have been acquired "at any cost." This influences the general price level of food. How do you reconcile all of the above ways of achieving intensification with khozraschot principles?

[Answer] One of the weakest aspects of our economy, and the food industry is no exception, is production efficiency. In the agriculture and food sector I view the key task in the near future to be the improvement and, primarily, the thorough application of criterial khozraschot principles at all levels of management so as to bring the objectives of the center into line with those of the sector and enterprises. We are aware that the system of financial and economic mechanisms must create for all enterprises and collectives equivalent economic conditions and motivational environments.

I assume that there can be no place here for subjectively justified preferences. Only in this way is it possible to reach an accommodation between the pressure of planned management from the center and the interest of enterprises and direct production collectives in the full utilization of material, labor

and financial resources. At present we consider it a top priority to incorporate these ideas in the thoughts, attitudes and actions of everyone who makes decisions concerning the use of material and financial resources, and efficiency. We must, no matter what it takes, overcome material and technical conceptions of the tasks involved in production intensification that are divorced from economic reality. The same is true in the area of investment.

In conjunction with the formulation of the Eighth 5-Year Plan we are developing special program measures to increase the economic efficiency of production and to strengthen the internal resources of enterprises. In the food industry special programs are being developed to improve the processing and comprehensive utilization of raw materials. In innovational programs tasks have been established to increase nutritional characteristics, to increase product shelf life, expand the industrial production of semifinished goods and preprocessed dietetic, condensed, and children's foods. These objectives must also be subjected to the criteria of efficiency and profitability for producers.

Long-range developments project a significant increase in the output of the food industry that is based on the assumption that agricultural raw materials will increase in quality, thereby facilitating increased sophistication in their processing. We will try to achieve the upper limits of the utilization of possibilities, in fact by increasing our demands on the activity of cooperating sectors in the production of packaging and of modern machinery lines.

In focusing our efforts and measures on the improvement of production efficiency and overall management effectiveness we must pay attention to the fact that our agricultural as well as food industry enterprises are relatively highly differentiated not only in terms of their production-technical and economic sophistication, but also in terms of the sophistication of management, the quality of work, economic activity and aggressiveness, all of which come into play in the search for improved performance and long-range prosperity. The requirements of public development on the whole are in line with current practices, which provide a portion of resources for effective utilization in the development of economically weaker agricultural enterprises, provided this results in the improved mobilization of their own internal resources to improve product quality and economic performance.

[Question] How do you plan to create the opportunity for the improved utilization of the creative potential of the top performing or progressive agricultural enterprises? This creative potential as we have seen, often has an impact outside of their own operations. At the same time, a proper attitude in the ranks of management can permit them to make substantial contributions to the future growth of their own production and that of others, to serve as examples of the enterprise systems of the future, while at the same time sharing their contributions with a wider audience.

[Answer] We intend to make greater efforts than we have to date, in conjunction with party organizations at the kraj and okres level, actually to implement a differentiated approach to such enterprises, rather than only paying lip service to doing so. We will apply different techniques and management mechanisms to leading and to lagging enterprises. We will devote considerable

attention to the implementation of the principles emphasized at the 11th CPCZ Central Committee Plenum, so that one of the basic criteria in the evaluation of the work of okres agricultural administrations--and we will extend this to the food sector as well--will be their participation in the elimination of objectively unjustifiable differences in the production and economic performance of enterprises.

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CZECHOSLOVAKIA

## ROLE OF PRICES IN AGRICULTURE DISCUSSED

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/Article by Kveta Burianova, Candidate for Doctor of Science, Federal Price Office: "Prices in Agriculture; Economic Tools and Efficiency"/

/Text/ HOSPODARSKE NOVINY published, in No 34/1984, an article by Eng Ludovit Posa, candidate for Doctor of Science, entitled "The Search for New Approaches," in which he outlined possible directions for improving the economic functioning of the agrofood complex. I think that it would be useful to respond to some of his comments, by way of expanding upon them, and for the sake of discussion. The Federal Price Office is currently working on some of these problems.

In discussions concerning modifications to the economic tools available for managing the agrofood complex, there has been a consensus that the administrative aspects of the planning system need to be simplified and that the role of supplier-consumer contracts needs to be further emphasized.

### Strengthening the Role of Contracts

Shifting the responsibility for the provision of the raw materials necessary to feed the population to customers would undoubtedly have a number of positive consequences, primarily in terms of intergration into vertically-integrated production operations and in the effective focusing of economic tools.

There would, however, have to be an agreement coordinating plans for the development of production with actual demand. Currently, despite the ongoing marketing problems faced by a number of agricultural enterprises, for instance grape growers, plans persist for further plantings of vineyards, even though the achievement of projected per hectare yields by 1995 would mean that half of the area currently planted would be sufficient to cover projected demand.

Strengthening mutual responsibility for the conclusion of realistic contracts and their fulfillment will require an increase in the economic incentives to do so. Instead of the current ineffective system of supplementary payments, premiums and in some cases penalty reductions, we think that it would be more efficient and administratively simpler to use prices established by contract for production in excess of the contract amount and production that differs from that specified in the contract. A similar system now exists for fruit

and vegetables. In this way the consequences for failure to fulfill the contract will be distributed evenly, depending on the situation in the satisfaction of market requirements, between both contracting parties, and the related material settlement would be facilitated without the need to involve the state budget.

It is also important to make the time schedule for the delivery of agricultural raw materials, especially fruits and vegetables, more precise. Contracts can be made to specify that the producer of lettuce, for example, produce the lettuce in stages. Given smooth deliveries of quantities appropriate to demand, a store would be in a better position to pay a producer for the possibly higher costs than in the current situation, when periods of shortages alternate with times of massive deliveries that result in the need for reduced price sales to get rid of the excess. For fruits and vegetables, where there is a fixed relationship between procurement and retail prices, the consequence of reclassification and reduced price sales on the risk fund of the Fruit and Vegetable store chain, and indirectly on the state budget, was significant: losses in 1982 exceeded Kcs 0.7 billion and last year Kcs 0.5 billion.

It is especially necessary to increase demands on quality, specifying what is necessary to meet customer needs. To provide incentives for meeting these stricter requirements it would be desirable to strengthen the integrational funds of customers with resources from current supplementary price mechanisms (supplementary payments, premiums, growth premiums and differential payments), and to make it possible to offer from these funds not only contributions toward a material solution (modernization, expanded capacity, etc.) at a supplier's facility, which has been the case to date, but also to offer the same contributions tied directly to the inclusion of the required qualitative parameters in the necessary production.

The view has been expressed that the interest of the consumer would be better served through marketing to more than one outlet, which would result in competition between a larger number of smaller facilities. Although it is possible that such an approach would provide greater incentives to consuming organizations to increase the variety of items that they carry, the fact is that such a program would waste investment resources, spread qualified personnel too thinly, make the more magnanimous application of R&D findings more difficult, and would increase overhead and transportation costs. It would mean voluntarily giving up the advantages of concentrated production, which the July session of the senior representatives of the CEMA countries reinforced by adopting several measures. A specific example of the shortcomings of the multioutlet solution is the processing of grapes simultaneously in winemaking plants and at agricultural enterprises. This has resulted in a significant fragmentation of investment, and the investments that have been made in the past have been poorly utilized.

#### Price Scissors

In capitalist countries a comparison between the price index of agricultural products and the price index of agricultural requirements and services is utilized to evaluate the relative development of agricultural prices. Data



concerning these so-called price scissors are used both because price performs a totally compensatory function and because precise data concerning the development of revenues and profits of agricultural producers are for the most part not available.

Using indicators that compare the growth of price indexes for agricultural products and for agricultural requirements would be possible in our country only for a small number of agricultural enterprises, those for which the procurement price is the sole source of revenues. Even in such instances the price index would be skewed by the differing sizes of the base, which is substantially lower for the price of deliveries. If procurement prices amount to about Kcs 100 billion, then an increase of 10 percent represents Kcs 10 billion. However, increasing the price of capital asset deliveries by 10 percent yields an increase of only Kcs 7 billion, only Kcs 5 billion of which represents deliveries from nonagricultural sectors. Compensation in terms of procurement prices is, however, supplemented in the agricultural enterprises of the CSSR by other price and nonprice mechanisms, which account for an average of 20 percent of the revenues of these organizations (especially of state farms operating in difficult natural conditions), and in some cases up to 40 percent of the compensation received for capital replacement costs.

In recent years it has been primarily supplementary pricing mechanisms (differential payments and growth premiums) that have grown faster than procurement prices, thus further worsening the predictive capabilities of the indexes of the so-called price scissors. This is evident from the fact that the price index for capital assets between the years 1980 and 1983 amounts to 113.8 percent, while that of procurement prices stands at 110.9 percent for the same period. Based on this relationship alone, one would be forced to conclude that the revenue position of agricultural enterprises had worsened significantly. In fact, the increased prices of capital assets and the revenues from agricultural deliveries were equalized at 121 percent. This contributed in 1983 to the achievement of the highest profit level in the entire history of our socialist agriculture, and to an exceeding of the profit plan for agricultural enterprises by Kcs 3.6 billion, or 39 percent.

From this data it is clear that under our conditions the indicators of the so-called price scissors must be considered as inaccurate, so that suggestions that they be used to adjust procurement prices or overall compensation for capital replacement costs must be rejected. On the other hand, it is essential better to utilize the wealth of accurate data on the revenue positions of socialist agricultural enterprises that is available, and especially comparisons of achieved profits and total resources with the plan and with the standard necessary profit based on 5-year plan targets, as well as the relationship between average bonuses and debt loads in agriculture and the national economy, the enhancement of the balances remaining in the capital replacement fund, year-end consumption, etc.

#### Differential Payments

The high volume of subsidies and interventions from the state budget in the agrofood complex is frequently juxtaposed with the planned shift in the cost

base of procurement prices from the worst natural conditions to the mean growing conditions for a particular product. It is a fact that in 1983 roughly 26 percent of all subsidies from the state budget to the agrofood complex were in the form of differential payments that increased the receipts of agricultural enterprises operating in difficult natural conditions. The remaining subsidies, including reverse turnover taxes on food, were directed at rectifying low labor productivity in agriculture or the opposite, i.e., relatively low food prices, thereby reducing the replacement costs of labor. But even differential payments do not compensate solely for the affects of differing natural conditions, i.e., differential rents I, but also, especially on state farms, for inferior management results stemming from smaller labor forces and the higher costs entailed by this as well as shortcomings in organization and management and the resultant lower production intensity and higher overhead. Calculations of the Research Institute for the Economics of Agriculture and Food in Prague indicate that with the use of objective standards only about half of the resources currently in use would be needed to deal with the impact of differential rents I.

The highest differential payment rates increase the receipts of agricultural enterprises operating in the worst conditions by as much as 80 percent. In the formulation of procurement prices based on the costs incurrent under the worst conditions, these would have to be increased by 80 percent. This would mean that under optimal conditions enterprise profit would increase by 80 percent of receipts, i.e., a multifold increase. The extraction of such an enormous profit increase with taxes because of a smaller number of enterprises with lower production and operating in inferior natural conditions cannot be considered feasible.

The problem, then, is not to shift the cost base to the worst environments, but to formulate differential payments so that they will act in conjunction with procurement prices. The current system does not provide for this, because it does not provide for differing needs for profit and return on investment for specific products, or for the same products grown under different natural conditions. For instance, the production of swine based on purchased fodder mixtures without regard for natural conditions achieves under poor natural conditions, through the influence of differential payments a return on investment that is many times greater than when they are raised under better natural conditions, where these operations clearly belong. In this sense the current system of differential payments conflicts with procurement prices and with the location of agricultural production so as to optimize the use of natural conditions. It is therefore necessary to modify the system of supplementary payments in such a way that it will supplement, by using standard calculations, the procurement price, raising compensation to a point sufficient to defray objective costs and the calculated necessary profit for specific products or product groups, under all natural conditions.

The impact of differential rents II are primarily a matter of the distance between supplier and customer centers. This problem has been solved in the CSSR through transportation parity at the agricultural enterprise for both agricultural products and agricultural requirements, making it unnecessary to consider them further in other economic mechanisms. This leaves, within the

context of differential rents II, the resolution of the problem of the consequences of the uneven levels of application of R&D progress. Participation in the financing of efficiency-enhancing measures at enterprises that are short of revenues must, however, be determined strictly on a task basis, an objective that cannot be achieved with rate mechanisms.

The subsidy system designed to implement the shift of the cost base from the worst conditions will then be task-based, and its formulation will continue to be refined so that it can work in tandem with the procurement price. Price subsidies for production resources for agriculture (fertilizer, fodder, machinery) are slated to be eliminated during the Eighth 5-Year Plan meaning that there would remain in agriculture, in addition to differential payments, only those mechanisms compensating for shortages of internal enterprise resources. The remaining price subsidies for agricultural raw materials are considered to be best directed at a point between the wholesale and the retail price, taking the form thereby of a negative turnover tax. This would contribute to an increase in the predictive function of wholesale prices in evaluating the efficiency of goods both for the domestic market and for export.

#### "Open Purchase of Production Assets"

The announcement of ideas concerning the "open purchase of production assets" and "open forms of compensation" are usually supported with arguments in favor of reviving the initiative of enterprises and the individual. These at first glance attractive principles conceal, however, a large risk of intensifying differences in enterprise management sophistication even under the same natural conditions, as well as differences in compensation for the same work in various enterprises. Investments planned for specific branches are not unlimited, nor do reserves exist for the satisfaction of all worthy requisition requests. We consider it most effective from a public point of view to allocate the resources where they are most needed to compensate for enterprise deficiencies in the implementation of R&D progress, and not to situations where the enterprise already possesses the necessary financial resources. This second approach would result in the accumulation of the most modern equipment in those enterprises with the strongest revenue positions, and which are usually well equipped in any event.

A similar relaxation of compensation regulation would create the conditions for an increase in the concentration of the most competent workers in those enterprises which would pay them the most, while their absence from lagging enterprises would mean the loss of hope that they could eventually overcome their backwardness. For these reasons these policies cannot at this time, given our conditions, be considered appropriate to the proportional development that is our objective.

9276

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CZECHOSLOVAKIA

SECOND STAGE, WAGE RESTRUCTURING RESPONSIBILITIES OUTLINED

Prague PRACE A MZDA in Czech No 6, 1985 pp 9-13

[Text] The 16th CPCZ Congress emphasized the necessity of purposeful application of the merit principle and differentiation in compensation. For this reason, part of the "Set of Measures to Improve Management of the Economy After 1980" was the development of a comprehensive program for increasing the economic effectiveness of the wage system, which is to ensure better quality work and higher efficiency and economizing. Implementation of this program is one of the important political and economic actions of this 5-year plan; it will be effected gradually, in two stages.

It mainly pursues the goal of strengthening the active role of wages in support of carrying out the decisive tasks of economic and social development and improving order and discipline in work. The current economic developments require a direct relationship between the wages paid and the results achieved by work and economizing. This presumes that we will ensure a continuous lead in the growth of productivity of labor over the growth in average wages as an important condition for developing the relationship between the creation of national income and the wage funds and an economically justifiable proportion between the populace's earnings and expenditures.

The presidium of the CPCZ Central Committee, the CSSR Government, and the presidium of the Central Trade Unions Council worked out the approach for preparing and implementing the program for increasing the economic effectiveness of the wage system. They tasked their agencies and organizations with proceeding within the idea of the principles of a unified approach by the state, economic, party, trade union, and youth agencies and organizations.

The state and economic agencies have the main responsibility for the preparation and implementation of the program. The appropriate ministers, general managers, and enterprise managers have personal responsibility for seeing that the entire process of preparation and implementation will be in keeping with the established directives and that it will be of such quality and completeness as to ensure fully its political and economic success.

The overall status of preparations for implementing the second stage is evaluated by the party and trade union organizations. Permission for implementation is given, on the basis of verified overall political, organizational, production technical, economic, and wage preparations, by an agency of the immediate superior organization, which thus takes responsibility for meeting the established conditions and criteria. An organization which does not take care of these things on time must put off implementation until such time as it will be capable of meeting the established goals. In no case can we allow hasty action. It is definitely necessary to avoid speculation with wage growth which is not based on improved results in work and economizing.

Mastering the demanding tasks of the program's second state demands concentrated efforts, close cooperation, and a unified approach by the state, economic, party, trade union, and youth agencies. We can only achieve good political and economic results by purposeful work, high-quality preparations, and thoroughly requiring fulfillment of the established conditions and criteria. The appropriate ministers, general managers, and enterprise managers are responsible for timely, overall preparations and proper implementation.

The method of implementing the second stage will be directed by the appropriate central agencies through the ministries' management commissions; management commissions are also established in the economic production units and enterprises. At the ministries, economic production units, and enterprises, they work out political organizational support plans which determine the time and material process of preparation and implementation. They include the tasks and time limits for the individual sectors in production technical, economic, and organizational preparations and the responsibility of the individual supervisors for their accomplishment. They also include the method of informing the workers of the goals and main tasks of the second stage, forms of propagandizing, and the process of evaluating and controlling the preparation and implementation of the second stage. The plans are the basis for the unified approach by the state, economic, party, trade union, and youth organizations.

#### The Tasks of the State and Economic Agencies and Organizations

The state and economic agencies are responsible for timely and high-quality preparations and for proper implementation of the second stage of the program. They plan the management and systematically control the entire method of work, cooperate closely with the economic production units and enterprises, and ensure systematic assistance where it is necessary. In keeping with the approved program, they take care of these main tasks:

1. The Governmental Wage Commission:

—in cooperation with the ministries of labor and social affairs, systematically study, validate, and evaluate the method of preparation

and progressive implementation in the branch ministries, especially meeting the established conditions and criteria (continuously);

--in cooperation with the Central Trade Unions Council and the Economic Department of the CPCZ Central Committee, set up aktivs to begin preparations for implementation of the second stage in order to familiarize a broad circle of the supervisory economic workers and officials of the party, trade union, and youth organizations with the main tasks (the second quarter of 1984);

--evaluate the overall status of the political organizations, production technical, and wage preparations for the second stage in selected economic production units and enterprises (the third quarter of 1984).

## 2. The Ministries of Labor and Social Affairs:

--together with the branch ministries, direct the course of preparations and implementation of the second stage, check on and evaluate the results achieved, take actions to correct deficiencies discovered, and inform the government, party agencies, and trade union agencies as required (continuously);

--provide effective political organizational and technical wage assistance to the branch ministries and the selected economic production units and enterprises in achieving the basic goals and tasks of the second state of the program (continuously);

--in agreement with the branch ministries and appropriate agencies and on the basis of the approved principles, issue the appropriate adjustments and supplements to the wage regulations (the third quarter of 1984).

## 3. The Branch Ministries:

--in cooperation with the appropriate central committees of the trade union associations, work out the plans for political organizational support of the preparation and implementation of the second stage of the program in accordance with the principles approved by the government (the second quarter of 1984);

--in cooperation with the appropriate central committees of the trade union associations, set up ministerial aktivs to begin actual preparations for the purpose of familiarizing the supervisor economic workers and officials with the main tasks of the second stage, with the plan for political organizational support, and with the intended approach in the individual production economic units (the second quarter of 1984);

--through their ministerial commissions and in cooperation with the appropriate central committees of the trade union associations, organize

professional instruction of the workers in economics, rationalization, and work norm establishment to direct the approach in fulfilling the tasks of the program's second stage (the second and third quarters of 1984);

--direct and coordinate the overall work approach in the ministry and control and evaluate the course of preparations and implementation of the program's second stage (continuously).

#### 4. The Economic Production Units and Enterprises:

--in close cooperation with the trade unions, work out the union or enterprise plans for political organizational support of the preparation and implementation of the program's second stage in accordance with the superior central agency's plan (the second quarter of 1984);

--through their own commissions, organize professional instruction and set up consultation centers as necessary to explain the main goals and tasks of the program's second stage; make general application of comments by workers on improving training, on the development of work initiatives, and on increasing the overall performance and effectiveness (continuously);

--begin systematic political organizational, production technical, economic, and wage preparations at least 6 months before the established schedule for implementation (continuously);

--regularly control and evaluate the overall course of preparations and the results achieved in implementation, correct deficiencies discovered without delay, and inform the superior agency of actions taken (quarterly);

--at membership meetings of the ROH [Revolutionary Trade Unions Movement], inform their workers beforehand of the intentions of the program's second stage and involve the broadest circle of experienced workers in the preparations, set concrete tasks for the individual units for preparations, and thoroughly familiarize all workers with the new work and wage conditions (according to the implementation schedule in the enterprise).

The Tasks of the Party Agencies and Organizations (to be taken care of within the party)

#### ROH Tasks

Trade union agencies and organizations at all management levels will take an active part in supporting the preparation and implementation of the program's second stage; in doing so, they will see to overall preparations and timely, high-quality compliance with the wage technical and political organizational conditions and other prerequisites

determining good results from the actions taken. The main task of the trade union agencies and organizations is primarily the following:

1. The Central Trade Unions Council and Czech and Slovak Trade Unions Councils:

--direct and coordinate the approach of the trade union agencies in the period of preparations and gradual implementation of the second stage in accordance with the approved principles of the uniform approach of the state, economic, party, trade union, and youth agencies and organizations;

--study and evaluate the course of preparation and implementation and unify the efforts of the ROH to increase the economic effectiveness of the wage systems, especially through application of the socialist principles of compensation;

--ensure training of official aktivs, particularly from the wage sector, and members of the management commissions.

2. The Central, Czech, and Slovak Committees of the Trade Union Associations:

--ensure close cooperation by the appropriate trade union associations with the branch ministries in working out the ministerial plans for political organizational support of the preparation and implementation of the program's second stage;

--increase direct and methodical assistance to the lower trade union agencies in educating trade union officials and guide them in critical evaluation of the criteria which are decisive for reaching agreement with the applicable new conditions of work and compensation;

--in the spirit of the resolution of the Central Trade Unions Council of 7 January 1981 on the role of the ROH in the field of work and wages, improve the level of political organizational and educational work intended to gain the broadest possible circle of workers for active participation in the creation of favorable conditions for successful implementation of the program's second stage.

3. Plant, Enterprise, and Trade Union Committees of the ROH:

--create the prerequisites for the workers' active participation in the preparation and implementation of the program's second stage, especially helping to make sure that application of the new conditions is accompanied by application of the merit principle in compensation, improvements in the organization of labor and management, and strengthening work order and discipline; that the material incentives are increased for finding and exploiting reserves in the growth of the productivity of labor, application of scientific-technical advances in practice,



and increasing the effectiveness of foreign exchanges and achieving savings of all types; take effective action to overcome the egalitarian tendency in compensation and to create conditions for better material rewarding of individuals who demonstrably contribute to good results in work and economizing;

to achieve those goals:

--familiarize the workers with the nature and method of applying the principles of the program's second stage in the specific conditions of the individual work area, together with the economic supervisors, at the membership meetings and production councils;

--see to it that all material comments and suggestions by the workers are responsibly considered and decided upon;

--ensure, in keeping with the approved program of the political organizational approach, the participation of trade union officials, key workers, improvers and innovators, members of the brigades of socialist labor and production brigades in the preparation of specific actions within the organization and the individual work areas;

--make use of their knowledge and experience in evaluating the results of the program's second stage;

--bring together thorough preparation and implementation of the program's second stage with the development of work initiatives and the creation of conditions for coming up with counterplans which make possible the appropriate growth in wages for individuals and work collectives;

--are responsible, along with the economic supervisors, for making sure that the new work and wage conditions are promptly and responsibly discussed with each workman and technical-economic worker.

#### The Tasks of the SSM Agencies and Organizations

The SSM [Union of Socialist Youth] agencies and organizations take an active part in the preparation and implementation of the program's second stage; trusted officials of the basic organizations, plant-wide, and enterprise SSM committees work in the branch, trade union and enterprise management commissions, where they propagate materially justified suggestions and comments by the young people. They particularly orient the efforts of the SSM toward:

--explaining the intentions and goals of the second stage to the young people, development of the work initiative, and support of fulfillment of the production and economic tasks as an important prerequisite for improving the social, work and wage conditions of the workers;

--broadly activizing the young people, especially toward overall development of rationalization activities and setting work norms, maintaining production and technological procedures, improving the quality of products and work and the improvers and innovators movement, and including young workers in the brigade form of organizing work and compensation.

Joint efforts at increasing the economic effectiveness of the wage systems must become an important part of the operations of all management levels and channels. It requires purposeful and systematic work and a resolution to rectify more effectively all deficiencies and conflicts and manifestations of obsolescence, routinization, and formality. It increases the demands for thorough application of the socialist principles of compensation and propagation of the merit principle in accordance with the demonstrable results of each individual's work. At the same time, there is a need to help educate the socialist thinking and discussing person.

The presidium of the CPCZ Central Committee, the CSSR Government, and the presidium of the Central Trade Unions Council are convinced that communists, key economic workers, trade union officials, and the youth are fully aware of the importance of these actions for further economic and social development and will make every effort to carry them out.

Effective and convincing economic propaganda is an important part of the overall program. This is jointly provided by the state, party, and trade union agencies, mainly in the mass media, the press, party educational work, trade union training, and in the workers' training system.

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CZECHOSLOVAKIA

#### IMPROVEMENT OF AGRICULTURAL SERVICES DISCUSSED

Prague HOSPODARSKE NOVINY in Czech No 4, 1985 p 6

[Article by Eng Jiri Rehak, CSSR People's Control Commission: "Is It Possible To Improve the Quality of Agricultural Services?"]

[Text] The 11th Plenum of the CPCZ Central Committee, which was devoted to problems of the further assurance of food for the population, gave a poor evaluation to the performance of agricultural service organizations. In his speech Comrade Pitra stated that in some organizations, including agricultural chemical organizations, the greatest increases are in those activities which will facilitate the fulfillment of plan targets. The report of this session criticized numerous instances of low quality, slow reaction time and, especially, the high prices of the services that are provided. These conclusions correspond fully to the results of an inspection of the programs and effectiveness of the services offered to agricultural enterprises related to the chemicalization of plant production and of repair services for agricultural equipment that was conducted by agencies of the people's control system.

For purposes of this inspection two groups of critical services related to primary agricultural production were selected from the broad spectrum of agricultural services, namely equipment repair and agrochemical services.

#### Differences and Similarities

The systems of organization and management for these two types of services are different; repair services are one of the key activities of vertically integrated economic production unit [VHJ] machinery and tractor stations [STS] and agricultural machinery repair centers [OZS], while agrochemical services are performed by agrochemical enterprises [ACHP], which are organized as a form of interenterprise cooperation with legal autonomy. The senior administrative organ, therefore, is a committee of representatives composed of the senior managers of the member organizations. These enterprises are subordinate to okres agricultural administrations. In addition, STS and OZS are for-profit organizations, while ACHP operate on the basis of production costs with any profits (after transfers to the bonus fund and social services fund) distributed to member organizations.

Despite these substantial differences there are points in common in the development of these two services. The first of these is a typically rapid increase in the volume of services performed. In 1976-1983 the volume of repair services, including rebuilds, in the CSSR increased by 42 percent, and the output of ACHP by 432 percent (as new organizations, the ACHP have a smaller base on which to compute figures, hence the high percentage figures). The fundamental shortcomings include an inappropriate mix of services offered, frequently low quality, little flexibility, and exorbitant prices. This reduces the attractiveness of these services to agricultural enterprises. The main reasons for this situation stem from the application of inadequate planned management systems for service enterprises, and from shortcomings in managerial and organizational work within these organizations.

The critical planning indicators for service enterprises consist of aggregate measures of value, such as output, adjusted values added, profit, return on assets, wages payable resources as a percentage of adjusted values added, total costs as a percentage of output. These indicators cannot serve to measure the effectiveness of the services that are performed adequately. They do not even perform their function well in industrial enterprises in cases where it is possible to meet the value targets for an enterprise with an appropriate mix of outputs (given the existence of subjectively differentiated profitability in the individual wholesale prices of outputs) without regard for public requirements. In contrast to production enterprises, the operations of which frequently result in the production of a specific product, the public utility of which can then be measured using value indicators (more or less accurately depending on the quality of prices and other mechanisms), there is no similar system for characterizing the public effectiveness of the activities of service enterprises. They perform their services as specific operations in the agricultural production process, meaning that the impact of their activity should be evident in reduced costs and increased intensity of production for the users of services. If this is not the case, service enterprises lose their justification, even though it may be possible to demonstrate a small impact from the greater utilization of the production assets of service enterprises than is found in most agricultural enterprises.

This conflict between localized and public assessment of service activities has been clearly evident at STS and OZS. In recent years ministries have been giving these organizations for the most part good marks. They have generated high profits (from other activities as well), which have made it possible to cover not only their own requirements and the tax on profits for national committees, but also supplementary transfers which the Ministry of Agriculture and Food has been using to cover additional pressing problems of this sector. Agricultural enterprises, however, have for the most part been displeased with the conditions of the services that have been provided, which has resulted in the rapid development of their own repair facilities. This has taken place at the same time that STS and OZS facilities have been under construction, with the result that the latter have been underutilized, and public resources therefore wasted.

### What Kind of Prices?

The influence of economic mechanisms may be documented with the development of the structure of repair activities. General overhauls (even though some are more profitable than others) are more profitable across the board than other types of repairs. This is true of both small repairs and of post-season repairs to complex machines conducted on the basis of diagnostics. This type of repair as a percentage of total repair work should increase, at the expense of the expensive and more profitable general overhauling work. It should come as no surprise then that the number of general overhauls in the CSR increased from 1975-1983 by Kcs 913 million, while other types of repairs increased by only Kcs 152 million, reducing their share of the total from 25.6 percent to 19.6 percent. This trend also held true for the SSR.

At ACHP, for instance, inappropriately established financial targets offer incentives to maximize revenues while restricting allocations of fuel and labor (in part because wages payable resources are tied to financial performance). This has led the ACHP to develop a different mix of services than those required by their member organizations.

Mechanisms of the financial plan, of course, are of importance to service enterprises, especially as an incentive to reduce that portion of their costs which the service enterprises can control without having a negative impact on their work. They should not, however, be allowed to lead to a deformation in the structure of offered services.

The high prices of offered services often put off agricultural enterprises. They are for the most part convinced that they can do the same job less expensively with their own resources. This view is not completely verifiable because the necessary calculations have a different base (agricultural enterprises normally work on the basis of direct costs, while service enterprises must also figure on overhead costs, and repair centers on an appropriate percentage of profit). What is interesting is that a sufficiently profound analysis that reconciles these different views has not as yet been performed.

Nevertheless, it is clear that the prices of services contain some fat that must be eliminated:

--for repair services, the main concern is the slow implementation of prices, meaning that with R&D advances prices become divorced from the conditions under which they were first established, especially for overhauls. No less important is the excessive profit margin that has come about mainly in reaction to the updating of the agricultural tax law in 1979, under which technical services are taxed at a rate of 50 percent of the generated profit. These high, planned profits are one of the reasons for relatively high prices; technical services have, that is, become a publically undesirable mechanism for the redistribution of formed excess product between agricultural enterprises and the state budget (the redistribution function can be fulfilled in ways other than by creating an aversion on the part of users to offered services for this reason);

--agrochemical service organizations should not charge prices that include a profit, their prices rather should cover only the costs of the ACHP. For this reason these prices are not uniform but, on the other hand, there is too much variation in them. For instance, the price for the application of 1 ton of solid artificial fertilizer fluctuates in the CSR from Kcs 35 (at the Humpolec and Kolin ACHP) to Kcs 161 (at the Zamberk ACHP), and in the SSR from Kcs 56 (Prievizda) to Kcs 232 (Chotin). For 1 ton of manure the prices range from Kcs 6-7 (Kladno, Volyne) to Kcs 35 (Decin), while in the SSR the range is Kcs 10-50. The high prices are the result of poorly organized operations at a number of relatively well-equipped ACHP (high fixed costs), sloppy work, differences in ACHP cost structures, poor capital asset and work force utilization in off-season periods, poor organization and management of work and the lack of concern with which in the final analysis the member organizations often treat invoiced costs. There does not exist, however, a standards base founded on current technological norms and differentiated soil and climate conditions that could be used to rationalize and reduce costs.

#### Quality Is Decisive

One of the key aspects of the success of services is their quality, promptness of response, and timeliness of performance. The quality of the work of agricultural service organizations varies, as indicated by the number and percentage of damage claims and repairs. For instance, in overhauls of the UR I tractor the average return percentage was 7.1, with the lowest being at the Sumperk STS (4.7 percent) and the highest being at the Kralovice STS (47.7 percent). The average return percentage for post-season overhauls of combine harvesters was 28.1 percent, with the lowest percentage recorded by the Svitavy STS (16 percent) and the highest at the Jindrichuv Hradec STS (87.3 percent). The situation in Slovakia is no better. The 37.2 percent return rate on 476 overhauls of Zetor tractors at the Senica specialized STS, and the 40-70 percent return rate in given years on overhauls of Kirovec tractors at the Levice STS, are not acceptable figures.

This is not a matter of the cost involved in correcting the faulty overhaul workmanship, because this does not amount to even 1 percent of the cost of repair operations. The point is that there are machines that are not capable of work after they have been repaired, and that problems are frequently not taken care of within the established warranty periods. Bad experiences in this area have caused numerous agricultural enterprises either to not report problems at all or to set up the facilities to handle repairs themselves. This results in drains on their work force, especially at peak working times.

In agrochemical enterprises as well the quality, professionalism and efficiency of operations differ widely. There are ACHP such as the Mydlovary ACHP in Ceske Budejovice Okres, the work of which is acceptable to its member organizations. This is not the case in a number of other okreses, among them Kladno, Klatovy, Jindrichuv Hradec, Pisek, Breclav, etc. Agricultural enterprises have noted the need to utilize equipment better, improve equipment groupings, better adapt the working hours of ACHP to seasonal requirements, improve the timeliness and quality of applications, etc.

To some extent objective factors have a negative impact on service quality. These include spare parts availability at repair facilities, and the availability in terms of time and product mix of agrochemical materials to ACHP. The major concern, however, must be the effective conduct of internal controls which, to put it mildly, does not happen very often. In more than 50 percent of all STS technical control functions are combined with others, quality control is made the responsibility of foremen and senior workers, no technical procedures exist for repairs or control operations, proper equipment is lacking, quality control divisions restrict themselves to reviewing the results of return situations rather than engaging in systematic quality control programs, there are no economic incentives for workers to become involved in quality control. All of these conditions are in violation of the Principles of Control in the National Economy and State Administration.

In ACHP as well the internal control systems do not function effectively and there is a tendency to shift responsibility for inspection of completed work to the member organizations. There is no other way to explain the text of the contracts concluded between the Chotin ACHP (Komarno Okres) and its agricultural enterprises, according to which the Chotin ACHP takes no responsibility for damages resulting from the improper choice of pesticides or improper application amounts. Likewise, the Klatovy ACHP, during negotiations related to damages from the improper application of pesticides, requested that the JZD concerned exercise greater control over the quality of its work.

Economic incentive mechanisms are not being used effectively in either STS or ACHP to increase the quality and efficiency of services. Instead, most of them are using mechanisms derived from the volume indicators of the plan. This is especially inappropriate for ACHP, because much of their work cannot be defined ahead of time, since it is dictated by the appearance of specific diseases, pests, etc. In spite of this, the technicians of the ACHP in Nymburk Okres had their second quarter 1983 bonuses withheld because they failed to fulfill the plant protection plan. They were also informed that if they would fulfill the annual target (regardless of whether specific developments required their intervention) the withheld sums would be awarded to them.

For blue-collar employees as well indicators related to the amount rather than the quality of work are used. In spreading, for instance, no consideration is given to its quality (spreader settings, application speed, degree of double coverage, etc.)

If more significant steps are not taken to tie compensation more closely to the quality of work, its timeliness and the efficiency of services that are performed, and on the contribution of these services to the consuming organizations, then customers will not be satisfied with them even if they are reduced in price to make them more attractive. Guarantees have a large role to play in this regard. Their implementation and expansion, however, is proceeding very slowly (with the exception of STS guarantees on milk quality), despite the fact that a guarantee policy was established in 1981 as a part of the improved planned management system in agriculture.

## Possibilities for Improvement

With regard to the repair operations of STS and OZS enterprises the primary objective must be to determine the future composition of the task structure, based on a division of labor between agricultural enterprises and the above organizations, or on some form of cooperative merger of the two. This is because the current pattern of repair facility construction does not correspond to our original assumptions. A specific plan for the mix of services to be offered is a necessity for the formation of a financial plan and a wages and labor plan. This would represent a change from the current subordination of the structure of services to the need to fulfill financial plan targets. Furthermore, it is essential to rationalize the pricing structure for repair services, basing them only on socially essential costs and the minimal necessary profit for the development of various divisions and the implementation of a preferential taxing policy for repair services that will provide an incentive for STS and OZS enterprises to expand repair operations while minimizing the profit margin included in the price of repairs.

Increasing the quality and timeliness of repairs is dependent on the one hand on the consistent application of Principles of Control Over Repair Shop Conditions, and on the other hand on an improvement in the system of economic incentives by tying them to the fulfillment of qualitative indicators. In this regard the expansion and improvement of guarantee agreements and the gradual search for links between the efficiency of repair services and the results of the agricultural operations of contracting organizations will assume ever greater importance.

Similar measures are necessary in the area of agrochemical services, i.e., the establishment of a division of activities between agricultural enterprises and ACHP that will reflect the construction of an applications base both at the ACHP and in contracting organizations; the subordination of the financial portions of the plan to this agreed-upon structure of activities; the rationalization of costs with the objective of reducing unjustified differences in the invoiced costs for applications; greater concern for the quality, timeliness and responsiveness of services rendered; and improved incentives tied to the performance of the plant production of the contracting organizations (this is a closer and more easily quantifiable link than exists for repair services).

Problems specific to ACHP include that of assuring that applications of chemicals are performed properly (since improper applications result not only in the inefficient allocation of resources but also in environmental consequences), and the improvement of organization and management.

The lack of uniformity in construction, management, applications, cost structures, etc., is to a large extent the result of lax overall ACHP management. However, shifting these organizations to a vertical type of organization such as that of VHJ, STS and OZS does not represent a sure cure-all, as shown by the numerous shortcomings in the effectiveness of repair services. It is undoubtedly necessary to strengthen both the unified direction of ACHP operations (developing the most effective forms of warehouse construction, application systems, the off-season utilization of capital assets, organization



and management, etc.), as well as cooperation between the supervisory organization, i.e., the committee of representatives and its elected spokespersons, and the professional management of the ACHP. The improvement of this cooperation is a precondition for improving the efficiency of agrochemical service operations.

The need to improve the efficiency of agricultural services was emphasized by the 11th CPCZ Central Committee Plenum. Several ways to assure the completion of this task, which have been cited in this article, are contained in the July resolutions of the CSSR People's Control Commission and the November 1984 resolutions of the CSSR Government Presidium, which were approved after discussing the report of the CSSR People's Control Commission on the results of an inspection of the appropriateness and efficiency of repair and chemicalization services.

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GERMAN DEMOCRATIC REPUBLIC

YEAR-END ECONOMIC REPORT CITES GROWTH, HIGH ENERGY CONSUMPTION

West Berlin WOCHENBERICHT DES DEUTSCHEN INSTITUTS FUER WIRTSCHAFTSFORSCHUNG  
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[Article: "Supplies Improving but Investments Decline"]

[Text] Unlike previous years, in the course of 1984 the GDR regularly reported on some important indicators of economic activity. Soon a considerable economic growth was found for 1984. A good harvest enhanced the success. The goals in cutting back input factors--extremely high ones to be sure--have evidently not fully been attained, however, and the change in the production profile toward higher "refinement" is not making as much headway as had been hoped.

From the national economic plan and information from the State Central Administration for Statistics about its implementation<sup>1</sup> the following picture arises for the most important parameters (growth over previous year in percent):

	1983	1984	
	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>
Produced National Income	4.4	4.4	5.5
Industrial Commodity Production	3.9	3.6	4.2
Retail Trade	0.7	2.2	4.1
Foreign Trade	10.6	5.0	8.0

An essential factor for the speed-up in growth over the plan and the previous year was the development of agriculture which significantly surpassed the plan quotas. A slight improvement in general growth prerequisites, furthermore, is that imports increased more than exports.

Growth went hand in hand with a considerable increase in primary energy consumption. That may have been an increase between 4 and 5 percent, the highest rate since 1976. It follows from the mining of raw brown coal reported (296 million tons)<sup>2</sup> and its proportion in primary energy consumption (1984: 72 percent, 1983: 71 percent). Noteworthy is the increase in natural gas production to 13 billion cubic meters. Greater production is hardly due to a commensurate increase in explored reserves. The range of the reserves is, rather, being cut back.

The main causes for increased energy consumption are:

--The possibilities to cut back energy consumption without a major investment effort are being exhausted;

--substituting brown coal for oil evidently is more difficult than expected.

That usually calls for higher energy consumption: transports and brown coal conversion into heat and carbochemical products are very energy-intensive; and --the weather being too cool in 1984, which also led again to increased primary energy consumption in the FRG.

Specific energy consumption in the economy therefore dropped but slightly (less than 1 percent). Total specific production consumption (energy, all other ancillary services and amortizations) is given at a declining 3 percent.

All the economizing crystallizes in the difference between the development of gross production and net production (= gross production minus material consumption and amortizations). For enterprises in the industrial ministries' sector it is reported that industrial commodity production (roughly equal to gross production) rose by 4.5 percent, net production however, by 8.5 percent. The connection between the two growth rates becomes clear when one considers the high proportion of production consumption (63 percent in 1983). Then we get the following picture (in percent):

	Proportion	Increase
Commodity production	100	104.5
- Net production	37	108.5
= Production consumption	63	102.1

It is conceivable, to be sure, that the development in 1984 was not completely spared price influences although national income and industrial production are computed generally at "comparable prices." The GDR has for some time carried on an intensive campaign for introducing new products. Production "upgrading" has been a plan assignment (= mandatory plan parameter)<sup>3</sup> since 1983. In new products enterprises, however, have the chance for not justified cost additions. Furthermore, through the calculation guideline that went into effect on 1 January 1984 extra profits--with a time restriction--are granted for stimulating the output of new commodities. Extra profits are allowed also for luxury items, other high-grade consumer goods and spare parts. The extra profit for spare parts comes to 50 percent of the profit calculated otherwise; for the other products the extra profits are set down officially at varying levels. The plan fulfilment report makes the point that in the industrial ministries' sector there has been a 21-percent proportion of new products. It cannot be precluded that they with their extra profits have entered into the output balance since there are no "comparable prices" for them. This touches on gross production and, especially, on net production, which is made up of wages and profits only.<sup>4</sup>

The net production parameter is a complicated instrument in any case. It is hard to control in planning and accounting, reacts strongly to changes in the production assortments and presumably offers the enterprises some leeway for manipulation. If one then still has to take the price effects described into account, the evidence they provide is still more in doubt. For all that, it is hardly astonishing for the plan fulfilment report to announce that of the

133 centrally managed combines, 132 exceeded their net production plans. The same is reported of all bezirks. In parallel with it, the industrial commodity production plan has also been fulfilled. Only the circle of enterprises that met all four chief parameters in performance rating (net production, net profit, products and services for the population, and export) still seems to be small.

Remarkable here is a shifting of accents in the official debates in the GDR. After, in the early 1980's, "qualitative growth" had been given the primary spot and the "intensification strategy" with its many substantive changes in the economic mechanism had been pushed, now they again point to the need for quantitative growth as well. Now it is being stressed that what matters is not only trimming production consumption and cutting back manpower, but also to ensure dynamic growth that way.<sup>5</sup> That presumably has something to do with the mention in the Politburo report to the 9th SED Central Committee session that they keep working in the parameter area.<sup>6</sup>

#### Development in the Producing Sectors

GDR industrial reporting has by now completely lost all continuity and comparability. The 1984 national economic plan had focused the planning of the industrial sectors on the parameter of industrial commodity production; the plan fulfilment report demonstrates the growth in net production. The problems accounted for in that parameter make judgments difficult. The trend of industrial commodity production is still given in the monthly reporting by the ECE of the UN.<sup>7</sup> Those statistics as of now range up to including September 1984. In their delineation, however, they still follow the overall enterprise setup, whereas net production, according to the plan fulfilment report, is broken down in terms of industrial ministries--so that again comparability is at best limited.

In the various industrial sectors the net production growth is two to three times as high as that of industrial commodity production. That has to do with the trimming of the specific production consumption, estimated at a goodly 2 percent for industry. But also price effects, as has been pointed out, may have played a role. In particular, the following is worth pointing out:

--The energy and fuel industry came up with extraordinary accomplishments. Raw brown coal mining and electrical energy production exceeded the plan. Conversion to domestic energy sources predominates the entire production process.

--There are problems in adapting to domestic raw materials in the chemical industry. The growth rates in this industrial sector now only come to circa 3 percent (five-year plan target was 6 percent), and investments serve the restructuring of capacities toward a higher degree of refinement for the raw materials used. Some capacities, therefore, cannot be fully used at this time.

--Heading the growth still in 1984 is the sector of electrical engineering/electronics/equipment construction. This sector, which does not much depend on raw materials, demonstrates a slightly declining growth vis-a-vis the plan and previous years, however. It may well be the scarcity in nonferrous metals that holds back a stronger development. Not last because of that the GDR seeks to push the condenser relay technique ahead.

--The light industry is now always being singled out for its importance in supplying the population and in export. Scarcity in investment means and raw materials is clearly felt here also and keeps growth rates relatively low (3 percent).

--Results in the bezirk-managed industry were disappointing, it having missed its plan approach. The formation of the combines has not yet given rise to many impulses.

All told, there were also remarkable rationalization successes in GDR industry in 1984. The potential is getting more and more exhausted, to be sure. The easily attainable possibilities for economizing by changing norms and standards and more rigid contingents have by and large been realized meanwhile. Now one would have to restructure more strongly for more high-grade products, but the investment and innovation potential does not suffice for that.

In the other columns of the producing sector reports of success predominate. In the construction industry the production increase of 2.5 percent surpassed the plan figures somewhat. The specific consumption of rolling steel (-9.5 percent) and of cement (-6 percent) was reduced according to plan. The growth in construction production was achieved while the use of material remained constant. That was due mainly to further changes in the construction production structure toward modernization and reconstruction. Also in new construction the reduction of construction expenditures is the supreme precept. One should, however, not slight the target conflict that is involved here: Reducing material costs in construction at any cost may over the long run lead to a considerably higher consumption of heating energy.<sup>8</sup>

Housing construction went considerably beyond the plan, again in the field of modernization. They completed a total of 207,000 apartments of which 121,700 were new. Modernization meanwhile reached a proportion of 41 percent, as compared with 38 percent last year. The high overfulfilment in modernization, as well as in new construction, is all the more remarkable because the conditions for building have become more intricate than they used to be: more and more they are building in downtown areas. Renewal and the closing of building gaps demand higher costs than does large-scale new housing construction.

In transport, there continues to be the strategy to cut the costs in freight transportation, and this by shifting to the more favorable energy economy carriers via tracks and domestic navigation. Remarkable successes have been reported. Transportation costs per production unit declined by 4.6 percent. The railroad and inland navigation share in domestic transport rose to 81 percent (compared with 79 percent in 1983). Further railway electrification reported great achievements. A circa 250-km railroad track was electrified. That brings it up to 640 km since 1981. Another 300 km are scheduled for the 1985 plan year. The five-year plan goal (700 to 750 km = increase in electrified tracks by more than 40 percent!) has in the meantime been increased to more than 800 km; this too is likely to be still surpassed. That task, to be sure, absorbs circa half of the investment means available for the whole field of transport and makes very high demands on the metal processing industry, making electrical energy plants, signal and safety equipment and electrical locomotives.

Yields in agriculture were extremely favorable in 1984. In grain--mainly because of the weather--with an average hectare yield of 45 decitons and a harvest of 11.5 million tons, a record outcome was achieved; in all other crop production varieties yields also were above average. Only fruit lagged behind expectations. Total crop production rose by 14 percent. That peak outcome must be put into perspective, however. Since the previous 1974 record, crop production had been stagnating.

The market production of animal products rose by circa 7 percent in 1984. Cattle stocks also increased, so that the result in livestock production was still better than shown in official statistics. The plan fulfilment report stresses improved breeding results, small losses and a more rational use of fodder. The successes in agriculture are likely to be attributable, not last, to the new forms of "territorial production organization" and the improved collaboration between crop and livestock production. The plan fulfilment report also, however, points to the agrarian price reform.

According to the Politburo report to the ninth SED Central Committee session, cooperation councils are to be assigned economic management functions in the future. Joint funds are to be set up there for investments, incentives and reserves. No question, close crop and livestock production collaboration via cooperation councils makes sense. Yet if the revaluation of cooperation councils is to go hand in hand with a higher means of production concentration, leading to the normally experienced excessive specialization and concentration, it is likely to cause problems.

#### Use of the National Income

Since the early 1980's economic development in the GDR has been marked by above-average increases in exports and a reduction in import growth. The produced national income rose by a bare 13 percent between 1980 and 1983. The national income used up domestically--for consumption and investments--slightly declined, however. Capital going abroad essentially concentrated on the western industrial countries because the GDR had to reduce its indebtedness at short shrift.

The decline in the domestic use hit both components, consumption and investments (including inventories). "Improving the population's material and cultural standard of living," the "main task" since the start of the Honecker era, did not remain untouched. Despite official announcements, the improvement in the supply situation, clearly in evidence in the 1970's, did not continue. The increase in retail trade, especially in industrial goods, kept shrinking. An increasing part of the industrial consumer goods output was needed for export.

Economic management kept pointing out, however, that a close reciprocal connection existed between public supplies and economic growth via the causal chain of "economic growth-improved satisfaction of needs-development of the working people's motivation and dedication-higher production efficiency-economic growth." Thus the scarcity in domestic consumer goods available was due only to the unfavorable foreign economy conditions.

So it is only logical that after some consolidation in foreign trade public supplies were normalized again. In 1984 the increase in net monetary revenue came to 3.9 percent; retail trade rose by 4.1 percent, including foods and luxury items by 3.2 percent and industrial consumer goods by 5 percent. The stagnation of the two previous years is gone; assortments also have become more diversified.

Retail trade--like net monetary revenue--is a nominal entity. The size of inflation contained in it is unknown. Prices for basic needs have been constant for years, according to the official version. Prices for the more high-grade goods, however, are supposed to be adjusted to the higher costs and yield taxes as well as profits. The GDR's Statistical Yearbook also has shown since 1979--when these new trends in the consumer price policy were announced--price increases for leather goods, textiles, clothing and other industrial commodities. The actual price hikes due to the introduction of new and more expensive products and shifts in assortments are likely to exceed these statistically registered price hikes. Expensive goods in the meantime can also be found in normal stores, but mainly in the special shops of "Exquisit" and "Delikat," which have 300 and 550 sales outlets respectively (1982).<sup>9</sup> Real improvements in 1984 thus are to be assessed as smaller than is expressed by the increased retail trade volume.

One must keep in mind, however, that the economic management policy has been aimed at alleviating domestic scarcities mainly at the expense of investment activity. Already the five-year plan, which had assumed still better prerequisites for these 5 years, scheduled a slight decline in investments. The tougher conditions--less petroleum from the Soviet Union, less pit coal from Poland, and the need rapidly to reduce the indebtedness to the West--have had additional effects on investment activity and overall economic inventories. The 1981 investment total has not been equaled since then. The investment amount of M 56 billion at current prices, set down for 1984 in the plan fulfillment report, in reality probably is a drop of circa 5 percent from the previous year. The problem also is that investment activity focuses more and more on the basic materials and means of production industry, to ensure a domestic energy and raw material base and to convert to domestic raw material deposits. That, by the way, also puts more stress on the environment, for the reduction of which no investment means of any consequence could so far be made available as yet. In many other sectors also investments are likely to have been dammed up considerably. The "in-house rationalization means production," boasting high growth rates, is in most cases probably only a makeshift measure.

The scarcity in investment means is mainly to be mitigated by making better use of what one has. That includes more continuity in the production process and more shifts. The operation span for production installations went up to 16.2 hours in 1984 (15.6 hours in 1983). The planners think it should have come to 16.9 hours.

They also seek to increase the economic interest of the enterprises in their older equipment and its modernization, by using means of indirect control. With reference to the value of the investment capital, a production fund due of, in principle, 6 percent has to be turned over to the state. Recently the decision was made<sup>10</sup> to derive the production fund dues from the net value of

the capital investment (purchasing value minus write-offs). That debits older equipment more than previously. It was furthermore established that--in connection with computing the production fund dues--general repairs do not increase the net value of an installation. This is supposed to promote modernization and make new investments relatively more expensive. Yet none of those measures can bridge the growing investment gap.

#### Foreign Trade Aspects

Foreign trade data are once again brief in the plan fulfilment report, yet they still permit a picture of overall development in 1984. It gives figures on trade development (export + import), and this in totals, for trade with socialist countries and the Soviet Union, and also on what is outstanding in the commodity balance (+ 6.4 billion in valuta mark). That indicates that GDR export, at 7 percent, increased less than import (10 percent). The commodity balance surplus fell below the 1983 figure (8 billion valuta mark). GDR data and the data available as of now from the partner countries show that a new phase has begun in GDR foreign trade.

Western trade, after years of extreme foreign economy efforts, has been consolidated meanwhile. In 1982 already trade with the western industrial countries showed a surplus. That development continued through 1983 and 1984. Since then the GDR has reduced its net indebtedness to the West. In 1984, the extreme pressure on reducing debts was overtaken by some other development. As data from partner countries show--available completely only for the first 7 months, however--the GDR reduced its exports in the OECD trade (except for intra-German trade) and increased its imports. The higher imports are likely to have contributed to the remarkable overall economic growth, while it was also in the interest of the western countries to normalize their foreign trade relations again. One must not preclude the fact, however, that the higher dollar rate has made imports more expensive. The import/export trend with the OECD countries (excluding intra-German trade) suggests a lower deficit for the GDR in 1984. Financing that deficit was no problem. Commercial credits are available to the GDR anyway; it is being rated as a "gooddebtor" again on the European market too. Press reports indicate it was able to get credits in 1984 at an amount of a total of \$ 900 million from various sources.

A turn has in the meantime been made in the debate on GDR debts. First for a long time the interest focused on its gross indebtedness, now it is the size of its credit. That does hit the eye. According to BIS statistics, the GDR between 1979 and 1982 (computed for the years' end) had credits of circa \$ 2 billion. That went up to \$ 3.4 billion in 1983 and to \$ 4.2 billion by mid-1984. The GDR is making no moves to reduce its gross indebtedness thereby. Holding reserves costs money, however, because interests on credit are lower than interests on debts. Perhaps the explanation "liquidity goes before profitability" is not all that implausible in view of the tough problems in the past. Nor can it be made out yet whether the investment policy in the next five-year plan will include the import of larger projects from the West. Moreover, in the West there is a widespread view that the GDR still has high outstanding obligations for reasons of various transactions undertaken in recent years to alleviate the liquidity bottlenecks--especially with respect to oil. In any event, the debate on the credits at this time is as emotionally charged as was the degradation of the GDR to a country in debt in the early 1980's. However



irrational the course taken by the banks may have been so far in view of the real economic state of affairs--all that is likely to matter to the GDR is that it is again accepted on the European market. The planned sums for credits are almost always exceeded because of the banks' great interest in them.

Intra-German trade followed a course different from OECD trade in 1984. According to results available thus far, the FRG imported 12 percent more and exported 8 percent less. The export drop is partly explained by what happened in iron and steel in 1983. The total intra-German trade (trade of goods) in 1984 closed with a considerable GDR surplus of approximately VE or DM 1.3 billion. The accumulated GDR liabilities, which include the services and other positions with the trade in goods, dropped to DM 3.5 billion by mid-year (end of 1983: DM 4.1 billion); in the second half of the year it probably diminished by another DM 0.5 billion.

A new trend also set in in the trade with the Soviet Union. For the first time since Soviet raw materials became expensive the GDR achieved an export surplus relative to the USSR. It was the only CEMA country that met the demand raised by Premier Tikhonov at the 37th CEMA Council session in East Berlin in October 1983, to pay for Soviet raw materials by commodity exports. Between 1975 and 1983 GDR trade always showed a deficit relative to the Soviet Union. The deficit had accumulated at that time--according to Soviet statistics--to VM 15.3 billion.

The positive balance of 1984 (VM 0.6 billion) came from high export increases (13 percent) while imports were raised but slightly (7 percent). That gave an above proportionate boost to that trade; in 1984 the GDR transacted nearly 40 percent of its foreign trade with the Soviet Union exclusively. In the mid-1970's only one third of GDR foreign trade had gone that way.

The commodity structure in GDR-USSR trade varies as to imports and exports. One may say it is an exchange of machinery for raw materials: both groups share nearly 70 percent of those goods going either way. In imports, the raw material quota has almost doubled since the early 1970's. Mainly energy raw materials and iron and steel products is what the GDR gets from the Soviet Union. Of the energy raw materials alone, now circa 55 percent of GDR imports comes from the Soviet Union (14 percent in 1973).

The import boost in the last decade mainly was the result of the price hikes. As far as statistics inform on the trend in volumes, one finds that at that time no real increases took place in imports from the USSR. Most commodity groups within and outside the raw materials sector actually experienced a decline.

While exporting to the USSR, the GDR could also insist on price hikes, to be sure, but they remained below those for imports, so that the GDR's terms of trade worsened in the time under consideration. Even larger export volumes could not prevent a deficit in the trade of goods. Trying to increase its exports, the GDR mainly concentrated on machines. The already fairly high share in the early 1970's of 62 percent rose to 67 percent. In some commodity groups the Soviet Union has already for a long time been the largest recipient of the GDR export industry, receiving exports of 50 percent and more, in fishing vessels at times 100 percent, in machines and equipment for the processing of synthetics, nearly 80 percent.

The surplus in the 1984 trade balance is only the first step toward consolidation. To cancel the deficits piled up in previous years, more surplus has to be produced in the future. The Soviet Union, to be sure, is not going to push for the redemption of credits so short-term and rigorously as western countries, yet exports to the Soviet Union will have to be high in the years ahead. And this is not only a matter of quantities. For delivering its internationally competitive raw materials the Soviet Union also demands commensurate finished products. So it cannot be looked at, as it used to be, as an "easy market."

#### The 1985 Planning

The 1985 national economic plan once again falls under the auspices of "intensification." The demand is for stable, dynamic development with diminishing production consumption, better utilization of what there is, and enhanced refining. For the growth of 1985, the plan sets the following goals (increases over 1984 in percent):

- Produced national income, 4.4 percent,
- industrial commodity production, 3.8 percent, of it, in the industrial ministries' sector, 4.3 percent,
- retail trade, 4 percent,
- net monetary income of the population, 4 percent, and
- foreign trade, 8 percent.

On the growth scale, foreign trade still always comes first. Its 8 percent increase is a nominal figure, as one knows. After price adjustments, the increase there is likely to be larger than in the produced national income. The exports presumably are what an above-proportionate increase was scheduled for.

Net monetary income and retail trade are also nominal figures. While prices for "basic necessities" are constant, one still has to expect price increases on the whole due to the shifts in the consumption structure toward more high-grade products, together with changes in assortments and the introduction of new products. So private consumption will continue to increase less than production.

Through increasing the produced national income by a good 4 percent, the new intermediate-range growth objective for the GDR economy ought to be staked out. The intermediate-range structural ideas for further developing the GDR economy are not revealed in the national economic plan. The Politburo, however, has already passed basic resolutions for working out the five-year plan. That was announced in its report to the ninth SED Central Committee session; some basic features of the intended development have already become clear from it. The focal point of all planning for ensuring the raw material and working materials base evidently continues to be:

- Using domestic brown coal still more as energy source and raw material,
- more use of brown coal as the raw material for the chemical industry, and
- more of an emphasis on metallurgy, which is to be modernized consistently.

That ties up an essential part of the scarce investments in the raw materials and basic materials sector for converting to domestic energy sources. For total investments the plan quotes an amount of M 56 billion, without explaining

the price base. In the sectors outside the basic materials they evidently intend to continue the course of "intensification," modernization and "in-house rationalization means production." That strategy is likely to give rise to problems in view of the competition on the world markets and the growing qualitative demands the Soviet Union is raising.

Table: GDR-USSR Trade

<u>Year</u>	<u>Import<sup>1)</sup></u>	<u>Export<sup>1)</sup></u>	<u>Turnover</u>	<u>Balance</u>	<u>Proportion of Trade in Percent</u>	
	<u>in Billion Valuta Mark<sup>2)</sup></u>				<u>GDR<sup>3)</sup></u>	<u>USSR<sup>4)</sup></u>
1971	7.95	8.14	16.09	0.18	38.1	14.6
1972	8.01	9.62	17.62	1.61	37.7	14.5
1973	8.64	9.89	18.53	1.25	34.6	12.7
1974	10.15	9.96	20.10	-0.19	31.4	10.9
1975	14.09	12.45	26.54	-1.64	35.7	11.2
1976	14.91	12.88	27.79	-2.03	32.5	10.5
1977	17.67	14.79	32.46	-2.88	35.4	11.0
1978	18.60	16.31	34.91	-2.29	36.0	10.6
1979	19.66	19.61	39.27	-0.05	36.1	10.5
1980	22.21	20.40	42.61	-1.81	35.5	9.7
1981	25.81	24.08	49.89	-1.73	37.5	9.7
1982	28.58	26.58	55.16	-2.00	38.0	9.9
1983	30.87	29.95	60.82	-0.92	37.9	10.2
1984 <sup>5)</sup>	33.15	33.75	66.90	0.60	38.6	10.2

1) At given prices; because since 1975 the GDR has no longer shown import and export figures, the data starting in 1975 were computed by using the USSR foreign trade statistical data. - 2) Valuta Mark is the official accounting unit to show the GDR's foreign trade; conversion rate VM 4.67 = 1 transfer ruble. - 3) Proportion of USSR in GDR foreign trade. - 4) Proportion of GDR in USSR foreign trade. - 5) Provisionally.

Sources: Statistical Yearbooks of the GDR; Foreign Trade Yearbooks of the USSR. Data from OECD and CEMA partner countries.

Table: Industrial Commodity Production<sup>1)</sup> - Growth over Previous Period in Percent

	Year		January-September		
	1982	1983	1982	1983	1984
Energy and Fuel Industry	3.1	3.9	3.8	4.0	4.4
Chemical Industry	5.3	2.9	4.1	3.8	2.5
Metallurgy	3.3	2.9	2.6	4.0	1.6
Construction Materials Industry	-1.0	0.4	-2.1	1.0	2.0
Water Economy	3.7	-0.4	3.7	1.9	-1.2
Machine and Vehicle Construction	4.4	3.8	4.4	4.8	3.3
Electrical Engineering, Electronics	7.1	8.7	7.0	9.1	7.8
Light Industry	2.9	2.5	2.1	3.4	3.1
Textile Industry	3.4	3.3	2.2	3.3	2.7
Foodstuffs Industry	-0.4	3.7	-1.2	.0	3.8
Industries Total	3.7	3.9	3.7	4.5	3.4

1) Cleared of official working day data and recomputed for original data.

Source: "Statistical Indicators of Short Term Economic Changes in ECE Countries." Economic Commission for Europe, Geneva.

Table: Economic Development Indicators in the GDR--Growth over Previous Year  
in Percent\*

	1981 <sup>1)</sup>	1981	1982	1983	1984	1985
	Plan		Actual		Plan	Actual
Produced National Income	5.1	4.8	2.6	4.4	4.4	5.5
Primary Energy Consumption in Economy	.	0.3	-1.8	-0.1	.	4-5
of which raw-brown coal	.	3.5	2.2	1.5	.	6
Industry						
Commodity Production	5.1	2) 5.5	2) 3.7	2) 3.9	3.6	4.2
of which under industrial ministries	5.5	3) 5.9	3) 4.3	3) 4.6	4.2	4.5
Net Production (industrial ministries)	.	3) 7	3) 5.6	3) 7.1	8.0	8.5
Labor Productivity (Based on Output)	5.2	4) 4.2	4) 2.6	4) 3.4	5) 3.5	6) 5
Labor Productivity (Based on Net Output)	5) .	.	.	3.8	7.3	7.7
Construction						
Construction Output of Economy	3.4	3) 4.0	3) 2.9	3) 3.1	7) 2.1	2.5
Completed Apartments in 1,000	188.0	185.4	187.1	197.2	197.2	207.0
of which new construction apart-	210.0	125.7	122.4	122.6	117.6	121.7
Modernization	68.0	59.6	64.6	74.6	79.7	85.4
Agriculture						
Gross Soil Production <sup>8)</sup>	9) 2.2	0.9	-1.7	0.6	10) 8	11) 14
Livestock Market Production <sup>13)</sup>	9) 0.9	2.8	-6.6	2.7	14) 1.8	11) 6.5
Grain Harvest (in million tons)	10	8.9	10	10.1	10.5	11.5
Cattle Stocks, total <sup>16)</sup>	.	0.6	-2.1	3.0	.	1.6
Domestic Traffic <sup>18)</sup>						
Freight Volume	.	-3.2	-7.3	-2.2	.	-1
of which: railway	.	1.2	2.3	1.0	2.3	4.1
inland waterways	.	1.9	1.2	3.8	10.2	6.4
road traffic	.	-5.1	-12.3	-3.9	.	-4
Freight Transportation	.	-2.1	-6.7	-0.3	.	-4.7
of which: railway	.	-1.1	-3.1	1.6	.	3.7
inland waterways	.	9.3	-2.9	5.9	.	8.7
road traffic	.	-5.2	-18.5	-5.3	.	-9
Retail, Sales <sup>19)</sup>	3.7	2.5	1.0	0.7	2.2	4.1
of which: foods and luxury items	< 3.7	2.9	2.1	1.6	.	3.2
industrial commodities <sup>19) 20)</sup>	> 3.7	2.1	-0.1	-0.1	.	5.0
Foreign Trade, Sales	.	10.7	9.2	10.6	5.0	8.0
of which: imports	.	6.4	4.3	9.0	.	9.5
exports	.	15.4	14.1	12.0	.	6.6
Balance (in billion valuta mark)	.	-1.1	+5/4	+8.0	.	+6.4
Net Monetary Income of the Population <sup>21)</sup>	3.7	3.2	2.8	2.2	2) 2	3.9
Investments, total <sup>22)</sup>	-2.1	2.7	-5.2	-0.0	24) 25)	-5

\*Unless indicated otherwise, a real growth. 1) Five-year average. - 2) Computed from monthly indices, the actual, i.e. by recomputing data cleared of official daily working data. - 3) Computed from indices. - 4) Computed from index for industrial gross production per worker and employee. - 5) Under the industrial ministries. 6) In the National Economy - 7) Under the ministry for construction. - 8) Total of crop production, based on the GDR's grain unit key. - 9) Average annual growth rate proceeding from the 1976-1980 average with regard to the planned 1985 volume. - 10) Estimated for a planned average hectare yield of 45.1 deadweight tons of grain units. 11) Provisional computation. 12) Estimated

Table: Credits granted the GDR in 1984 (according to press reports)

Time	Size in millions of given currency	million U.S. \$	Grantor of credit/ Leader of consor- tium	Recipient of credit	Maturity	Interest rate
June	75 (U.S. \$)	75	Consortium of banks/ First National Bank, Chicago	Deutsche Aussenhandels- bank AG		1% above LIBOR
July	45 (DM)	16	Consortium of banks/Bank fuer Kredite und Aussenhandel, Zurich	Intrac-Handels- gesellschaft mbH		1% above LIBOR
July	950 (DM)	334	25 German banks/ Deutsche Bank Luxembourg (FRG guarantee)	Deutsche Aussenhandels- bank AG	5 years redemp- tion in 10 semi- annual payments	1% above LIBOR (1/4 of LIBOR extras to FRG government as surety)
Oct.	100 Swiss francs	40	Consortium of banks/ Bank fuer Kredite und Aussenhandel, Zurich	Intrac- Handels- gesellschaft mbH	4 years (with two redemp- tion- free years)	1% above LIBOR
Nov.	100 (DM)	33	Luxembourg sub- sidiaries of Bayrische- Landesbank, Bayrische Vereinsbank und Hypobank/Bayrische Landesbank Inter- national	Deutsche Aussenhandels- bank AG	5 years	1% above LIBOR
Nov.	400 (U.S. \$)	400	38 international banks (25% FRG)/ Deutsche Bank, Luxembourg	Deutsche Aussenhandels- bank AG	6 years (with 42 redemption- free months)	1% above LIBOR
Total		898				

for a planned average hectare yield of 43.6 deadweight tons of grain units. -  
 13) Total of state output in fat stock, milk, eggs and wool, rated in grain  
 units according to GDR grain unit key. - 14) Planning in volumes. - 15) Plan  
 quota for 1985, as to five-year plan. 16) Based on large cattle (GV) units;  
 computed on the basis of the GDR's GV key; status at year's end or 30 November. -  
 17) Planned are stable cattle herds. - 18) Without ocean navigation and civil.

# FOOTNOTES

1. NEUES DEUTSCHLAND, 19/20 January 1985, pp 3 ff.
  2. Increasing brown coal mining goes hand in hand with getting a poorer coal quality. "Heating values around 7000 kJ/kg are no longer rare today. We shall even have to expect a use of brown coal with heating values dropping to circa 6000 kJ/kg." Cf. Guenter Neumann, Karl-Heinz Nicko, and Hans-Guenter Weidlich, "Ash removal equipment for large power plants under the conditions of increasing ash content in brown coal and the economic utilization of waste products," ENERGIE-TECHNIK, No 12, 1984, p 448. The energy balance of the GDR expects a heating value of 8900 kJ per kilo of raw brown coal.
  3. Cf. Order No 3 on amending the order of GDR economic planning, 1981-1985. GBL 1982 Part I No 18 pp 365 ff.
  4. The situation may presumably be different for the "contribution to public funds," levied from industrial enterprises since early 1984. That contribution is calculated as part of prime costs when new products go into production; for traditional products it only becomes cost-effective when industrial prices are changed in the future. Explanations available thus far suggest that the contribution reduces the profit or is handled through a "sales tax."
  5. Cf. Otto Reinhold, rector of the Academy for Social Sciences, SED Central Committee, "Our Economy in the Social Conception of Developed Socialism," EINHEIT, No 1, 1985, pp 7 ff.
  6. Cf. NEUES DEUTSCHLAND, 23 November 1984, p 3.
  7. Cf. "Statistical Indicators of Short Term Economic Changes in ECE Countries," Geneva.
  8. Cf. Gerhard Huber and Baerbel Laschke, "Use of Energy in Consumption under the Conditions of Extended Reproduction," WIRTSCHAFTSWISSENSCHAFT, No 32, 1984, pp 1152 ff.
  9. Hansjoachim Hoffmann, "Long-range Development of the Sales Outlet Network," DER HANDEL, No 6, 1982, pp 27 ff.
  10. Cf. PRESSE-INFORMATIONEN DER DDR, 14 December 1984, p 2.
- aviation. -19) At given prices. - 20) Including intra-German trade. - 21) Nominal. - 22) 1980 constant prices without general repairs and foreign participation. - 23) In view of a planned total volume of M 256 billion. - 24) The amount of M 49 billion, quoted in the 1984 plan, probably does not include the investments that may be placed, on legal grounds, in addition to the state economic quotas. - 25) The M 56 billion quoted in the fulfilment report may only come to M 50 billion at 1980 prices. 26) The planned investment total of M 56 billion--computed at constant prices--will probably come to hardly half of the volume of last year.

HUNGARY

TRADE WITH USSR DESCRIBED

Budapest FIGYELO in Hungarian No 8, 21 Feb 85 p 11

[Text] Hungarian-Soviet exchange of goods last year surpassed 8.7 billion rubles, compared to 1983 it grew by 8 percent, Victor Ocheretyin, the Soviet Union's trade commissioner for Hungary stressed in his briefing of the press about the mutual trade relationships. He added that at the same time also the balance of payments between the two countries has considerably improved. According to the provisions of the barter and payment schedule for the year 1985, signed on 14 December 1984, this year the value of the mutual supplies and services of goods will surpass 9 billion rubles.

The Soviet Union was last year, too, the main supplier of the most important fuels and raw materials on the Hungarian market: it exported to Hungary more than 7.8 million metric tons of crude oil, 4.2 billion cubic meters of natural gas, more than 8 billion kilowatt-hours of electrical energy, 3.8 million cubic meters of industrial wood, 920 thousand metric tons of coke, 300 thousand metric tons of anthracite and 44 thousand metric tons of cotton.

Part of the natural gas and crude oil which came last year was preliminary delivery to the debit of the quantity projected for this year. In answer to the question, how much this year's Soviet natural gas delivery will be, it has been stressed at the briefing of the press that the quota projected in the schedule for the year 1985 will be fulfilled. Besides this, discussions are being conducted about a possible increase in the export, that is to say, that the preliminary deliveries would not be subtracted from the quantity in the schedule. Power economy is concerned also in V. I. Ocheretyin's announcement, according to which a Soviet promise was given on the ministerial level that the Soviet enterprises will deliver the third and fourth blocks of the Paks nuclear power plant on time.

There were preliminary talks between the representatives of the two countries also about Hungary's participation in the exploitation of the Yamburg natural gas deposit and that, in exchange, Hungary will receive part of the natural gas. The way things are envisioned, Hungarian architects will plan the new 12,500-apartment complex of

the Siberian city, and possibly participation in some other form will take shape also. On the planning level, talks will probably continue still this month. Quantities and the manner of deliveries and settling accounts still must be determined.

In Hungarian-Soviet trade numerous positively directed developments could be observed last year. Contractual discipline has improved; in connection with this, the Soviet trade commissioner admitted that, to be sure, last year Soviet delivery arrears still amounted to 1.1 percent, but that efforts to observe deadlines are making their effects felt. On both sides there were less complaints about quality than in earlier years. Serious efforts are being made from the Soviet side to improve the timeliness of goods deliveries. In this connection it is significant that the Csop border-crossing point is being reinstated. In fact, the expansion of the reloading station which is already standing by the border station, will be started this year. This together with the removal of deliveries to highway transport and to containers, might in the next few years ease the pressure weighing down on the junction.

A significant proportion (35.1 percent) of the mutual goods deliveries is realized within the scope of agreements between the two countries as to specializing production and to cooperation. Cooperation of this type is realized on the basis of 82 multilateral and 31 bilateral specializations, together with 33 branch subprograms. The next task in this area is to enhance the relations between enterprises. This question has been on the order of the day for a long time, talks have been conducted in very many areas, but progress is obstructed by several factors. One of the obstacles could be removed in December of last year, when an agreement in principle was born on an inter-governmental level about the legal framework of inter-enterprise specialization and cooperation and of mixed enterprises. V. I. Ocheretyin sees a possibility for establishing mixed enterprises above all in the chemical and machine industries, and discussions at an advanced stage are going on also in the area of champagne manufacturing.

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HUNGARY

# SZIKSZAY WRITES ON GOALS, POTENTIAL OF PRICE SYSTEM

Budapest NEPSZABADSAG in Hungarian 22 Jan 85 p 4

[Article by Bela Szikszay, President of the National Office of Materials and Prices: "The Goals and Possibilities of Our Price System"]

[Text] The price system is one of the pillars of our macroeconomic guidance system. This system, which works mainly with indirect means, can only be effective if profit, lucrativity and the price categories which influence both of the former can achieve decisive role in our national economy, and if prices in their respective functions can orient decisionmaking correctly, in accordance with the goals of our economic policy and in general with rationality.

Our price system has developed since 1968 significantly and usually in a smooth way. However, despite the correctly set targets and the measures well devised to attain them, we cannot pretend that by now our price system satisfactorily performs its role in both the production and consumption spheres.

The trends in the development of our price system have been, during the last couple of years mostly favorable. We will have to maintain these trends also in the years to come and will have to bring their impact to fruition. Yet the price system can only be developed in 1985 and during the years which follow, if we proceed gradually, with great circumspection and in close coordination with the goals of our economic policy and other elements of our macroeconomic mechanism.

Our price system and the price regulations should meet and harmonize two important requirements simultaneously. In the first place we ought to substantially enhance the impact of the price functions--particularly in production,--in other words we have to increase the helping, orienting and stimulating roles of prices in our economic policy.

Second, with regard to other elements of the economic regulator system--for example income regulations--we have to help implement our anti-inflationary economic policy by using the tools of the price system, and we have to strongly keep in check--more forcefully and consistently than in the previous years--the automatic charging of increases in costs to the prices.

The effectiveness of the price-functions may be greatly enhanced by the development of the price system toward the adoption of competitive market prices. Yet this can only be accomplished gradually, together with the development of the domestic conditions of competition, by stabilizing the balance of supply and demand, by reducing the monopolistic situations and by coordinating the rhythm of these moves, lest we may seriously jeopardize our national economy.

There is no doubt that Hungary--aside from a few countries which are displaying a conspicuous inflationary trend--is one of those European nations which have the highest increase in both producer and consumer prices.

The origins of this situation are well known; they are basically causes which have become inherent in our conditions, or may be considered as such (low economic productivity, obsolete production structure and changes in the world economy that are unfavorable to us). Thus it is a fact that is perceived but far from being generally admitted that what the price expresses is not always motivated by the price itself or the price system.

From all this it follows that under the present conditions of the Hungarian national economy we must take into account some measure of inflation in the long run, and that we can rely only on a relative stability of the prices. The prime causes of this situation are as follows:

--1. Foreign trade obviously plays an important role in our economy. This means that the changes in world market prices exert, through our export and import operations, a continuous and relatively extensive influence on our domestic economic processes, and the majority of these are price increases.

Improvements in the income-producing capacity of our economy, our economic environment which elicits and makes flexible accommodation possible and the acceleration of exchanges of products, are all factors which increase the mobility of the prices and price-relations. Since the downward movement of the prices is rather unusual, the trend of this movement becomes necessarily upward, and as we cannot "exempt" our national economy from price mobility, we also cannot prevent some increases in the price levels. However, if this goes hand in hand with modernization, the widening range of choices and smooth economic cooperation between enterprises, then the price increases are becoming in this sense--as the accompanying phenomena of positive economic development--almost economically justified and their social impact almost tolerable.

--2. Increases in the price-levels are elicited also by our efforts toward improvements in the value ratio of the consumer prices, our efforts to reduce their subsidy contents and our coordination of them with the producer prices.

Thus, if we want the price system and the orienting and stimulating functions of the prices to play an important role, this would inevitably involve--under our conditions--a moderate amount of price increases, that we have to account with. It also means that we have to assume the possibility of transitory conflicts (not of societal dimensions) which may accompany the increased

price mobility. We also have to know how to guide the economic processes and how to check the factors and means which influence the fluctuation of prices, in order to accommodate the trends of prices with the plans, and to keep price hikes at moderate level. These conditions will have to be set forth by our practical program of the development of the price system and the price mechanisms.

What kind of tools are at our disposal for checking price increases?

--1. We are going to expand the sphere of competing prices only gradually, in agreement with the stabilization of the balance of our domestic market. We cannot grant exemptions of the administrative prescriptions of competitive price shaping before establishing the conditions of economic equilibrium. We prefer slow progress in the release of certain restrictions, lest we may pave the way for unjustified charges of the expenses on the prices and may strengthen the superiority of the sellers over the buyers.

--2. Price policy plays a prominent role in checking the price-levels. In our foreign trade regulations we try to find such solutions which may allow the necessary export-incentives to work, while keeping price-increases at minimal level.

--3. We are going to proceed to the consequent and proper reduction of consumer price-subsidies in agreement with the longterm guidelines of the development of our price system. Yet we try to harmonize the elimination of these subsidies with our standard of living policy.

--4. We are firmly decided to further increase the flexibility of our price system and to expand the application of the sphere of free prices. However, during the forthcoming two or three years--with the strengthening of price stability on our mind--we do not plan the significant extension of the range of free prices in our price policy.

--5. We are going to strengthen the requirements of price control, which less than ever before will be based on the mechanical application of official prices and calculation rules. Emphasis will have to be placed on the comprehensive assessment of the enterprises' price operations, inspired by economic political considerations.

Thus we have preserved the stabilizing elements in our price system and price mechanism, which had been applied so far, and through their even more consequent application and development, as well as through the employment of new instruments, we are keeping the price increases in check and promoting the systematic evolution of the prices according to our plans concerning the price system.

In connection with our consumer price system a decision of the Central Committee adopted on 17 April 1984-emphasized the gradual attainment of two, already earlier publicized, economic policy targets, i.e. the realization of the correct value-ratio in prices and the coordination of the fluctuation of producer and consumer prices. Particularly since 1979 various consumer

price decrees have pointed toward these targets. However the conditions for their consequent application have become fit only now.

The development of the consumer price system postulates that consumer prices cannot be used as tools of certain socio-political plans except in case of such products and services in which they unequivocally serve the implementation of those plans. There are relatively few such products in case of which we can pursue socio-political goals by using prices as instruments and can benefit a certain social stratum at the same time (such is for example the state subsidy for baby clothing).

We should also realize that in a price system where the prices of goods and services also contain sales tax, a benefit for the public may be created if the state exempts the prices of certain goods from sales tax and fixes them essentially at costs. The extent of such goods and their share of public consumption will increase as a result of the development of our price system.

Aside from the preferential (subsidized and sales tax exempt) group of products, the prices of goods and services are increased by a sales tax, which is not excessive. Yet this sector also includes goods the prices of which are encumbered by unusually high sales taxes. Thus we discriminate against the ones whose consumption we want to curb.

In the long run our consumer price system will be divided on the basis of all this--taking the sales tax into consideration--into the following categories: goods and services subsidized by the state (for example milk); goods with prices exempted from sales tax (a few basic foodstuffs, children's clothing, books, newspapers, construction materials); products sold at prices carrying the most widely applied sales tax-rate (for example durable goods manufactured by the machine industry, household chemicals, furniture, sweets, industrial products); articles with prices containing higher rate sales tax (clothing, citrus fruits, cosmetics); products with high sales tax due to consumer-policies, foreign trade considerations or their luxury character (for example hard liquors, beer, coffee, tobacco, gasoline).

The shaping of the consumer prices and sales tax-rates of all these categories of goods cannot of course be completed at once, but only gradually, step by step, carefully abiding by the plans concerning our standard of living policy.

It is however also important to emphasize that in those areas in which the subsidies are eliminated and the planned sales taxes are introduced, it will be necessary and possible to coordinate the movements of producer and consumer prices. Such a coordination will compel the consumers to regularly survey the structure of their consumption and also to communicate their consumer interests and value judgement to the producers. The clashing of producer and consumer interests creates a room of societal dimensions for the coordination of production and consumption and the strengthening of the clout of the consumers will compel producers and merchants to mobilize their reserves, to take rational producing and marketing attitudes and to use price policies oriented by the market.

HUNGARY

REASONS, AIMS OF PRICE INCREASES DISCUSSED

Budapest HETI VILAGGAZDASAG in Hungarian No 4, 26 Jan 85 pp 4-7

[Interview with Ferenc Vissi, deputy chairman of the National Material and Price Office [OAAH] by Matyas Vince: "Price Discussion"]

[Text] We interviewed Ferenc Vissi (age 39), deputy chairman of the National Material and Price Office [OAAH] about the background, reasons and purposes of the principal price increases announced at the end of last week. Among other things we asked for answers to what else can be expected on the "price front" for the remainder of the year, what additional expenses will the price increases expected this year result in for the individual families and what anti-inflation steps would be necessary in the interest of decreasing the price-increasing effects?

[Question] Even though we have no reasons for joking, still let us keep ourselves to the light-hearted saying which has now more-or-less become a proverb, according to which "he who sets the price should also set the wage". So first let's talk about the wages. How much is the average wage and income increase we can expect this year in this country?

[Answer] The national economic plan expects 7-7.5 percent average income increases for 1985, but obviously the incomes of some of the workers will increase more than this, and it will be slower for others. Of course, only the number of forints actually received will be more in the above mentioned percentage ratio, only a few people will see an increase in real value. But I would like to also shed some light on the history of this.

This year's national economic plan was prepared in a situation in which improving the foreign trade balance continues as the prime social interest. As a result of this, a significant portion of the national income's growth is used to repay the foreign debts and only a minor portion of it remains available for increasing consumption by the population and the community. The essence of this is that after the realistically considered increase of the national economy's performance this year, enough resources will remain available to increase the population's consumption by only 1-1.5 percent. This at the same time also means that real wages will not have to be decreased

in 1985 as it was done in recent years, but the real wages can not be increased either.

I would like to emphasize with all this that for the national economy's balance the distribution ratios appearing in the real value do have basic significance. In comparison with this--and only in comparison with this--those considerations are secondary which deal with what nominal values--that is, what incomes and what prices--will make it possible and practical to implement this year's very strict requirements of maintaining the level of real wages. In connection with the nominal value we analyzed several possibilities when preparing the plan and based on the results of the studies the Council of Ministers made the decision that this year the increase of average incomes should be 7-7.5 percent and the consumer price level should increase by 7 percent.

I would also note that minor central wage raises will take place in 1985 in a few trades and that in the production sphere our basic interest is that the opportunity should exist to pay higher wages in those areas where by increasing the incomes the improvement of the foreign trade balance, expansion of the domestic supply, material and energy savings, etc. can be significantly encouraged. The new system of earnings regulation introduced as of 1 January 1985 also builds on this in part, and among other things the national economic plan decided on this year's growth rate of the earnings and incomes for these considerations. After this the possible circle of decisions is defined by what composition of the consumer price increases will assure that the real wages are kept unchanged, since--as I mentioned--due to the limitation of distributable resources the real value of earnings can not increase this year on the national economy's level.

[Question] How much will the current central price increase raise the 1985 consumer price level and what else is waiting for us, consumers, on the "price front" for the remainder of the year?

[Answer] We have already "spent" in 1984 one-half a percent of this year's 7 percent consumer price level increase, but the effect of this will also be seen in the 1985 price index, so that 6.5 percent remains for this year's price increase. Of this, 3 percent is the price increase by the central authorities and the remaining 3.5 percent is price increase which will take place continuously during the year as a result of changes in the free prices. The principal price increases placed into effect on 21 January--including the increase in prices of the daily newspapers--will cause the population about 14 billion forints of extra expenses during the year, which is 2.8 percent of the total consumption. That is, 2.8 percent of the 3 percent principal price increase planned for this year is the result of the already announced price increases. Thus this year's reserve of the principal price increase is only 0.2 percent and it will be decided later depending on the economy's results whether we will actually implement this and if so, with what. In a word, this year more significant price increases can be expected only for the free-priced products, but the average price increase for the whole year even in this area cannot be more than 6 percent.

Last year in the area of free-priced products the prices of clothing products, goods made of iron, produce and vegetables increased by more than 10 percent, but the price increase was also around 10 percent for mechanical products and household chemicals. We expect that in 1985 in the areas listed the extent of price increases will decrease significantly--to half or one-third of last year's in many product groups.

For free prices the increase depends basically on three factors: the rate of increase in producer prices, changes in import price levels, and the price effects felt due to composition of the selection. The three factors mentioned influence to varying degrees the individual product or service groups. Thus the size of the price increase depends on to what extent we can place rational barriers before the inflationary pressure starting out from the production sphere, what will be the extent of change in import's foreign currency prices, and in those fields where the ratio of new products is significant--that is, the composition of selection is changing rapidly--to what extent will the commercial enterprises take advantage of their opportunity of not having to accept without criticism the price increase demands of the producers of products classified as new. The dealers should pay more attention to the harmony between prices and quality.

[Question] We know that a portion of the present price increases derives from that principle announced long ago, that the state budget wants to decrease the consumer price supports. How will the budget expenditures decrease as a result of the price increases, and what other reasons, justifications and goals are there for the price increase? It appears as if the consumer price policy were primarily taking the budget's viewpoints into consideration.

[Answer] I would first answer the second half of the question. I admit that if we look at the size of the price increase the budgetary viewpoints are very important. But the relatively independent goals of the consumer price policy also gain expression in the structure of the price increase.

As far as the relationship between the price increases and supports is concerned, I don't think it would be worth while to go through all of the product and service classifications affected by the present price increase. The three price increases with major effects are the 24-percent increase in household energy sources, 29 percent for milk and dairy products and the average 55-60-percent price increase for local transportation fares going into effect as of the first of February. Of the 14-billion expenditure increment to the population, 10.6 billion forints will be in these three areas.

There is no doubt that decreasing the subsidy for consumer prices was one of the goals of the price increases. As a result of the price increases the consumer price subsidy for milk and dairy products decreased from 71 to 40 percent, and the budget's price subsidy to local transportation decreased from 329 to 180 percent. All these data also indicate that in spite of the large price increases the expenditures continue to significantly exceed the consumer prices, and thus consumption in these two areas will continue to be subsidized.

It is often asked why it is becoming an independent goal to decrease the subsidies, since the state could also in the future cover these costs in the same way and to the same extent as it has done it so far. I admit that this approach also contains realistic elements, but I still consider it most important to show what really causes the increase of subsidies.

Our analyses prove that in this country price subsidies are necessary also in part because we produce very expensively in comparison with the developed international level. I would like to use one example to demonstrate our problems in this area. Hungary's agriculture has gone through gigantic growth in the 1960s and 1970s. In the course of this, among other things, the income levels of workers and peasants had to be equalized, the support, the infrastructure of a very capital-demanding agricultural growth had to be created, production incentives had to be continuously maintained, agricultural industrialization had to be financed. All this was accompanied by a huge increase in expenditures. But the consumer prices did not follow the increase in wholesale prices resulting from this, therefore it became necessary to increase the subsidies.

Old and new prices of household heating materials (incomplete list)			
Product	Quantity	Consumer price	
		old	new
GDR briquette	1 q [quintal]	119.20	149
Polish flame-pea coal	1 q	108.50	141
Dorog briquette	1 q	75.20	94
Berente washed walnut	1 q	34.70	43.50
Berente lumps (washed)	1 q	55.40	69.40
Oroszlany lumps	1 q	71.10	89
Balinka walnut	1 q	39.60	48.20
Komlo screened crushed	1 q	91.60	114.60
Domestic cube coke		201.40	258.50
Unprocessed firewood	1 q	78	97.50
Propane-butane gas in over-5 kg bottles	1 kg	4.80	6.60
Household heating oil	1 liter	4.80	6.20

\* Because of the long distance transportation charges the consumer price of coal varies with the administrative areas, therefore we are giving the prices for Budapest.



Old and new fees for postal services		
Service	Old fee	New fee
	forint	
Letter, standard size	2	4
other size, to 250 g [grams]	4	8
to 500 g	8	12
to 1000 g	10	16
to 2000 g	12	20
Postcard, picture postcard	1	2
Newsprint mailings to 20 g	1	4
to 250 g	2	4
to 500 g	4	6
to 1,000 g	6	8
Book mailings to 250 g	2	4
to 500 g	4	6
to 1,000 g	6	8
to 2,000 g	8	10
Standard package (weight rate)		
to 5 kg	12	20
to 10 kg	16	26
to 20 kg	20	30
to 25 kg	28	40
Special services		
registered fee	4	6
express fee	8	10
return receipt	4	8
delivery to addressee only	2	4
Domestic money orders		
to 500 Ft	6	10
to 1,000 Ft	10	15
to 5,000 Ft	16	20
to 10,000 Ft	20	25

At the same time this described growth took place in such a way that in the meanwhile the growth of efficiency did not keep up with the changes which took place in the developed world and thus because of this, for example, the expenditure level of meat and milk production is much higher in this country than in the most developed countries with similar given natural conditions. Even the lower Hungarian wage costs do not equalize the difference. With this example I would also like to say that the many products, the relative abundance in itself is not enough for happiness.

Today we must interpret the price subsidies for meat and dairy products in such a way that inasmuch as the expenditures lastingly exceed the world market's price level and we cannot change this, then by all means the Hungarian society must pay for this. The only question is whether the population consuming the food should pay for it by way of our eliminating the subsidies by price increases, or should we opt for a price and tax policy on the basis of which we increase the prices of other products so that high enough taxes could be collected from there with which the subsidies and their increases spent on food can be financed.

The guidelines adopted for the long-term development of the price system approach this question in such a way that, on the one hand, they define the growth of efficiency as a prime requirement. This is the only tool for affecting a relative decrease of the expenditures and for the inflationary pressure to ease. On the other hand we consider the basic foods to be products on which the budget has no sales tax income, but sooner or later it is expeditious to develop a situation in which the prices cover the expenditures. It is also expressed in this duality that--like in most of the world's countries--the price of agricultural products in our country also is determined by the cost conditions within the country and not by the lower world market price level.

Among the present price increases by the authorities raising the prices of household energy sources will cause the largest incremental expense to the population. On strictly economic basis I would emphasize here that for a few years we have been setting the prices of energy sources on the basis of world market prices. But on the world market price basis all types of energy sources are very expensive. Beyond this it is only secondary that the price increase makes it clear: heating oil is the most expensive source to our national economy, and since we wish to restrict the use of propane-butane gas for heating purposes, we have here introduced the seasonal prices. In addition to all this, in order to save on the costly energy import which is also difficult to obtain, it is in the country's interest that we use as much domestically produced coal as possible for industrial purposes as well as for the population's purposes. At the same time the costs of domestic coal and electrical energy production--mostly for objective reasons--have sharply increased, and therefore the producer prices of coal products increased by 15-18 percent as of 1 January 1985, and the producer price of electrical energy went up by 15 percent. I would like to underline again that the increase of consumer prices in the energy sector is justified by the world market price base--and therefore the example differs in theory from the case of foodstuffs--besides which it is also a fact that we are producing coal expensively and even with the high world market prices our coal mining is not competitive.

For the budget the subsidy for consumer prices will, considering everything, decrease by 4 billion forints this year--by increasing the prices of milk, dairy products, products of the canning industry, and cultural products--and the budget will in several places save significant amounts of producer loss reimbursement subsidies. I referred to this with the examples of coal and electrical energy.

[Question] Since you are one of the managers of the Price Office, you are obviously not involved in the income and social security measures announced simultaneously with the price increases. But as long as we have received information about what incremental expenses the present price increases will mean to the consumers as a whole, we would also be curious to know what incremental expenses this year's increase will mean to a family?

[Answer] The KSH [Central Statistical Office] regularly prepares calculations and analyses about the expected and actual effects the price changes exert on the various types of households. These calculations naturally show not only the effect of the current central price increase but also reduce to numbers the effects which occur during the entire year, that is, the ones due to changes in the free prices. The data show that in 1985 the price indices of the basic consumer goods as well as of total consumption differ only slightly in the types of households observed (workers, producer cooperative members, two incomes, professional occupations and retired families). At the same time the per capita incremental expenditure measured in forints differs significantly, which is significantly influenced also by the level of consumption, the structure of consumption and family size. According to the two extreme values the per capita expenditure increment per year will be 3,960 forints this year for those in professional occupations--combining all the price increases which have taken place and the ones expected--from which 2,236 will go towards the basic consumer goods, while in the two-income families the incremental expenditure will be 2,260 forints of which 1,324 forints will result from the price increases of the basic consumer items.

In spite of the significantly different burdens it is my opinion that the price changes just announced will not significantly influence consumption in the affected areas. That is, the utilization, consumption of these products is rather inflexible and for the most part there are no cheaper alternatives for substitution. The price increase will in my opinion slightly reduce the population's cash savings and may also slightly decrease consumption of the non-basic products.

[Question] And last but not least: as economist what is your opinion about the price-increasing, inflationary tendencies manifest in the Hungarian national economy? What anti-inflationary steps would be needed? Your opinion would interest me, even if for no other reason, because the National Material and Price Office in itself is not supposed to, and also it is not able to keep the prices within limits since the price increases are the consequences of multifaceted and complicated economic processes.

[Answer] My answer in connection with inflation may seem odd to many, yet I will risk a very brief reply to this complicated question, even accepting that it may be misinterpreted. I believe and state that the economy-generated inflation in this country has only domestic reasons over the longer range: the perpetual shortages and the wasteful, persistently low-efficiency work. Naturally, over the shorter range, for example, the foreign market's effects--exchange rate deterioration, monetary crisis--can also cause very serious inflationary pressure, the solution of which is no easier than solution of the longer-range effects, only the system of tools is entirely

differently. People often confuse these, and this is the reason why views are spreading at times according to which changing the price, tax and credit regulations and the "powerlessness" of these regulations are the reasons that we still have inflation in this country. The reasons are much deeper than this, which is indicated also by the lasting merchandise shortages. The methods of eliminating the lasting merchandise shortages far exceed the framework of not one but many interviews, but our long and medium-term plans, economic policy, and our development policy as a whole are also working on this question. So I agree with the statement included in your question that slowing down the price increases is not simply a matter for the Price Office. Naturally, with this statement I do not wish to defend the faults of the price system.

And with respect to work and wages my opinion is that one of the reasons for the inflationary pressure--and inflation--is hidden, paradoxically, in the high wages. More precisely, in order to avoid misunderstandings: the wages of those are too high who are not working, and those are too low who are driving and hustling. The clear experience of the many forms of funds regulations we tried out is that the long awaited differentiation according to performance just does not want to become reality.

We have no trouble with the enterprise which regularly gives out above average or outstanding wage raises with above average or outstanding performance, but with those economic operators which give average or about-average wage increases to their workers with unchanged or declining performance or efficiency.

In addition I see the most solid point in that in [some] places of work they still tolerate people without ability, those who hold the place back, and the really unnecessary employees. And what is even more, everyone should think of his/her own workplace collective, where these people are even receiving raises this year, since "with such price increases everyone is entitled to it". The 7-7.5 percent average earnings increase is a great opportunity but it can be made into small money if distributed with the traditionally poor methods. Let us just look around in our own environment, how many times we see that the same work must be done over several times until finally it is done right. Unfortunately we do not stand on the podium in being well organized either, so that it is clear also in this respect that we are registering expenditures in the costs of our products--and also in the wages--behind which there is no utility value. This is one of the typical forms of inflation and deterioration of the money's value. Based on all this I can only answer to the question that every one of our actions which decreases the above mentioned two main reasons for inflation, shortage and wasteful work, is antiinflationary in character and as long as those exist, the inflationary pressure and price increases generated because of them, also will not end. So, slowing down the price increases is not simply a matter for the Price Office. This, of course, does not mean that I would want to defend the existing and corrigible faults of the price system.

Old and new prices of some foods (incomplete list)			
Product	Quantity	Consumer price, forint	
		old	new
Dairy industry products			
Milk (2.8 percent fat content)	1.1 liter	6	7.60
	0.5 l	3.10	4
Semi-conserved milk	0.5 l	3.90	5
Low-fat chocolate milk	0.5 l	4	5.30
Cream	2 dl [0.2 l]	5.70	7
Yoghurt	2 dl	2.40	3
Kefir [slightly carbonated, clabber-like dairy product]	2 dl	2.30	2.90
Butter	10 dkg [0.1 kg]	6	7.70
Whipped butter	20 dkg	10	13.70
Trappist cheese	1 kg	53	77
Balaton cheese	1 kg	53	77
Edam cheese	1 kg	52	77
Paranyica smoked cheese	1 kg	70	99
Teddybear (6 wedges)	20 dkg	10.20	15
Semi-fat cottage cheese (cow's milk)	50 dkg	10.30	14
Rudi cottage cheese	1 pc	2.40	2.80
Rama margarin	0.25 kg	13.80	17.50
Sugar industry products			
Granulated sugar, regular	1 kg	21.50	25
Refined granulated sugar	1 kg	23.40	27.20
Balaton lumps sugar	1 kg	26.40	30.60
Powdered sugar	1 kg	23.40	27.40
Canning industry products			
Lecso [dish with stewed tomatoes, paprika, onions] with rice and kielbasi (in glass jar)	0.45 kg	18.30	20.10
Bean stew with kielbasi (in glass jar)	0.45 kg	15.40	16.90
Stuffed cabbage (in glass jar)	0.45 kg	22.80	25.10
Apricot nectar	0.5 l	7.90	8.80
Peach nectar	0.5 l	7.70	8.60
Sour cherry juice ["cherry blood"]	0.25 l	6.40	7.20
Sio sunshine [drink] peach	0.7 l	16	17.80
Olympos lemon juice	0.56 kg	23	25
Olympos orange	1 kg	36	39
Peach preserves (glass jar)	410 grams	21.50	23.50
Sour cherry jam	630 grams	18	20

## Expenses

On Monday--exactly one year after last year's price increases for meat, beer and construction materials--additional basic consumer items and services became more expensive in Hungary. According to the release by the Council of Ministers dairy products will cost 11-40 percent, sugar 16, some confectionary industry products 5-15, and some canning industry products 9-18 percent more than before. The cost of energy sources also increased by 18-30 percent, local transportation by 55-100 percent and fees for postal services by an average of 84 percent. The release also foretells for 1985 a 3-4 percent increase in automobile prices and 7 percent in the prices of books. Average ticket price increases of 15 percent must be expected in the theaters, movies, circuses and variety shows.

The National Material and Price Office said that through the price increase the price of dairy products adjusted to the prices of the other basic foods. That is, the prices of the basic dairy products have not increased for several years, but in the same time meat products became 37 percent, bread and flour products 72 and 44 percent, respectively, more expensive. Last year the budget contributed a subsidy of 64 fillers to every 1 forint of milk purchases--they said in the Price Office. After Monday's price increase the dairy products will receive an average price support of 34 percent, thus these items will still be among the most subsidized foods.

In 10 years the domestic price of sugar increased four times, in 1975 1 kg of granulated sugar cost 9.60 forints and beginning on Monday it will cost 25 forints. In the Price Office's opinion the current sugar price increase was necessary because of the increase of domestic production costs.

The confectionary industry's products--which, by the way, are free-price items--last March became more expensive by an average of 9 percent. Now as part of the central price increase the prices went up again in this product group. The Price Office justifies the present 10-percent price increase for candy, 5-6 percent for chocolate, 15 percent for domestically processed cocoa--just like last time--with the increase in import prices for cocoa beans and the vegetable fat used in the confectionary industry, as well as of the packaging materials. Reduction of price subsidies is the reason for price increases of canned and frozen foods. As a result of the food price increases the prices in the restaurant industry and food at the place of work have increased. At the latter the enterprises may absorb the cost increase or part of it. In child care and social institutions the state covers the increased costs.

The various-sized price increases for energy sources indicate that effort of the government to guide the demand mainly towards the domestic energy sources (coal, briquette, wood). This is the reason--they said in the Price Office--that while the former went up by 25 percent, coke and heating oil went up by 30. The price of propane-butane gas was increased by 50 percent between 15 October and 15 April, at other times by 9 percent. They expect from the introduction of seasonal prices that the amount of propane-butane gas used for home heating will decrease. The consumer price increase

of electrical energy is justified by cost increases. The daytime price of current increased by 25 fillers per kilowatt # hour in all areas of the country. In Budapest this represents a 33-percent, in the towns 13-percent price increase. Night-time rates went up from 60 fillers to 70 fillers per kilowatt # hour.

Increasing the tariffs for local transportation--according to the Price Office's evaluation--was justified also by bringing the tariffs of long distance and local transportation closer to each other. The tariffs of local passenger transportation have been unchanged in Hungary since July 1966, in the meanwhile the state subsidy given to the transportation enterprises increased tenfold and last year exceeded 9 billion forints. The budget added 5.50-5.80 forints to every forint paid by the passengers in Budapest and an average of 3.80 forints price subsidy in the districts. Assuming unchanged commuting, as a consequence of the fare increases effective as of 1 February the state's subsidy can decrease by 1.3-1.4 billion forints. The transportation enterprises are entitled to 10 percent of the income increment, from this they can improve their level of services. (As we recall, when the long distance fares were increased in 1982 the income increments in their entirety went into the state's budget, nothing remained at the Volan [bus enterprise] or the MAV [Hungarian State Railways]).

The Hungarian Postal Service will derive an additional income of about 960 million forints per year from the postal rate increases. For the most part the rate increase will affect the institutions and enterprises, but it will also cause 400 million forints of extra expense to the population.

The prices of books published after 21 January will increase by an average of 7 percent, an extent in agreement with the consumer price level. Text-books are exempt, their prices will not change. (Publications issued earlier will not be re-priced)

#### Incomes

In order to partially counterbalance the increase in the cost of living the government also announced income measures on Saturday. These will increase the population's total cash income by about 3.5 billion forints (this was approximately 494 billion forints in 1983), from which the 21 January price increase takes away 14 billion forints.

In addition to the usual 2-percent but at least 100-forint raise in retirement income at the beginning of the year another 80 forints of increase will be given as of 1 January 1985 to all those whose monthly retirement pay is not over 3,000 forints. Of the 2.2 million retired persons in the country about 900,000 are in this category. Minimum retirement pay (more precisely: the lowest full amount of retirement pay one is entitled to on one's own) increased due to the 180-forint raise from 2,070 forints to 2,250 forints. But this can maintain the real value of only the lowest retirement benefits, the other retirement payments are not keeping up with the 7-percent price increase in 1985.

The amount of child care subsidy also increased by 80 forints as of the first of January. The GYES [child care subsidy] is now 1,240 forints for one child, and 1,340 and 1,440 forints, respectively, per child for two and three children. The family subsidy will increase by 40 forints per month per child, as will the income subsidy paid to one-child families. The family subsidy for families with 3 or more children increased by 70-120 forints and its amount is a standard 840 forints per month. The differentiation has been eliminated according to which the subsidy per child for families with 5 or more children was lower (700 and 680 forints, respectively) than for families with 3 or 4 children (730 forints).

Among the population policy measures the government issued regulation for the introduction of child care assistance (MAGYAR KOZLONY No 2, 1985), Mothers with small children up to the age of 1 year may take advantage of this new social security benefit beginning with 1 March 1985. It is expected to cost the budget an additional expense of 950 million forints this year.

The amount of the payment is generally the same as the mother's maternity subsidy but can not be less than the minimum retirement benefit and can not be more than twice that. Thus the child care assistance in 1985 can be set between 2,250 and 4,500 forints. As of 1 September the amount of the one-time maternity assistance will increase from 2,500 forints to 4,000 forints and at the same time the maternity leave will increase from 20 to 24 weeks during which the mother receives pregnancy and child birth benefits in the same amount as her average earnings. However, 4 of the 24 weeks must be taken before the expected date of the birth.

Significant modifications have been made in the sick benefit system. As a result of these the National Social Security Headquarters expects to pay this year about 300 million forints less than last year in sick benefits to the insured. (The social security contribution paid by the enterprises was increased on 1 January 1984 from 30 percent to 40 percent of the wage costs.) The legal basis for this is furnished by the government's order No 3/1985 according to which beginning with 1985 the sick benefit must be calculated on the basis of not the gross earnings but the earnings without the retirement contribution (net earnings). This means that, for example, for gross earnings of 6,000 forints--considering the 9 percent retirement contribution--4,073 forints is paid in the first 30 days of being on the sick list, instead of the previous 4,500 forints. At the same time, those who are sick for a longer period of time will receive more than before: from the 31st day of earnings disability 80 percent sick benefits are paid, and 85 percent from the 91st day. According to the new regulations during the time of hospital treatment the insured are entitled to the full amount of sick benefits and those at the beginning of their careers are also entitled to the full amount of sick benefits instead of the previous 65 percent.

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HUNGARY

# FACTORY FAVORS ELECTION OF ENTERPRISE COUNCIL

Budapest NEPSZABADSAG in Hungarian 26 Jan 85 p 12

[Article by Katalin Bossanyi: "Let Us Take Part in Management: Preparations for the Enterprise Council at the Csepel Auto Factory"]

[Text] The management committee is functioning for the seventh year already at one of the machine industry's largest enterprises, the Csepel Auto Factory, which employs nearly 9,000 workers. The special local feature of this collective decisionmaking body is that so far nine workers--not appointed by management, but chosen by the community--have also taken part in its work. The favorable experiences of the committee's operation contributed to the fact that in the last few days the enterprise's management has decided that an enterprise council will be established as soon as possible in accordance with the opportunity. I talked with workers, economic and social leaders about the preparations and expectations.

Szigetszentmiklos. Here, at the main plant of the Csepel Auto Factory, I visited auto mechanic Ferenc Gratzner, a group leader, and tool grinder Pal Szoloszjar. Both are already completing their second term on the management committee. They said that so far they had received adequate information for this work from the economic leadership. Before framing their standpoint they have always consulted with their plant manager, and together they have tried to represent the interests of the department. They also added that for the most part there was no opportunity to discuss questions of detail at these conferences--decisions were generally made on them beforehand--and they could hardly offer any remarks on the more comprehensive development/enterprise topics. This is why their activity was confined to reporting to their coworkers on the reasons for the managers' decisions and on the background for the enterprise results and problems. They believe the enterprise council will make an essential change in this matter: the flow of information will become bidirectional, and the opportunity can open up for authentic debates and for reconciliation of interests among various plants and factories.

## Expertise, Aptitude

"A lot will depend, of course, on who winds up on the enterprise council," notes Pal Szoloszjar. "Fifty-percent worker representation does not necessarily mean only workers. We must choose persons who know how to debate in a genuine way with the managers and at the same time have a solid grasp of the entire enterprise's

work. I think that for this reason the chairman of the enterprise should not be a worker but rather a divisional manager who has both a technical and commercial education."

"Great stress must be placed not only on education but also on aptitude," argues Ferenc Gratzner with his fellow worker. "We have to select persons who give a good impression and workers who are recognized for professional and human qualities alike. Only they can become the partners of management because, for example, they have nothing to fear in the event of disputes and clashes."

"What is the opinion of people in the workshops about this new possibility?"

Ferenc Gratzner: "There are those who welcome it, others are skeptical. 'Are we really going to choose the managing director?' they ask. The majority hardly take a stand, but it is still discussed because they would like to have more say in the enterprise's affairs. The most essential thing is trust! The new body should be such that people feel it represents them. When the workshop elected me from among two candidates to the management committee, it was very gratifying--my coworker who was passed over did not become my enemy--but I would have been more pleased if the balloting was secret. I mention this because when we elect the council members, we must see to it that no one can enforce his will at the expense of the majority. This will not happen right away, of course."

"There is nothing to fear, we have to plunge in!" said Pal Szolozsjar. "This factory has had its hard times in recent years, many have left, but anyone who has stayed here feels a responsibility toward the entire enterprise. The main staff has grown so that it can assert its rights in the enterprise council and undertake its obligations."

"What do you mean?"

"Let us take, for example, the employer rights. In my opinion, if the enterprise council is going to work well, there will have to be an end to living it up in the workshops and in the offices, too. I do not know exactly how much my managing director earns, but I suspect that it is much less than is due for so much work and such responsibility. We will not be as stingy as the ministry, though we require performance; which will obviously wind its way to the other managers, all the way to the shop foreman. And then those workers whose output is greater will be paid better. We will dismiss someone who just sponges on others."

"The enterprise council members have quite a lot of work. It is possible that someone who is elected to it will have less free time. For example, he will not be able to work in a business work partnership," I interjected.

"I hear that they still have not decided whether or not to pay the enterprise council members. But I believe it is much more important for a council which operates well and which stimulates the entire enterprise to work more efficiently to be able, in the course of time, to force management to pay the workers in proportion to their output in primary work time, not in business work partnerships after work."

## Changing Representation of Interests

The two worker members of the management committee have participated for many years in the work of the trade union steward body. They owe their knowledge and preparedness, last but not least, to this. So it is understandable that I selected as my next conversation partner Karoly Sarkadi, the Csepel Auto Factory's trade union committee secretary who plays a rather active role in organizing the enterprise council.

"This collective is suitable for making the best--in an understanding way--of the opportunities for new, more democratic management and self-government while keeping in mind the entire interests of the large enterprise," he says. "For this very reason we would urge the earliest possible formation of the enterprise council, even before the trade union elections. We would like it, namely, if a few of our well-educated people managed to get on the council, even if this means losses for the steward body."

"Only if the workers elect them, of course."

"Obviously. But I think that each enterprise group will plead on behalf of its own candidate. Nor do we let slip this opportunity."

"You were a member of the management committee. You participate in the enterprise council, however, not in a decisionmaking but only an advisory capacity. What is your opinion of this?"

"I consider it a lucky solution because this way, in the case of controversial issues, the trade union steward body can plead for and reconcile interests not merely with the manager but rather with a group of persons. I view this type of 'alignment' as a function of the trade union's increasing representation of interests and not as an abridgment of our rights. Among other things, I regard it as one of our new and very interesting tasks that we increase the workers' personal proprietary interest and the decisionmaking responsibility connected with it."

The largest factory unit of the Csepel Auto Factory--both in manpower and in production value--is the plant which builds and assembles underframes. Its director, Miklos Fekete, by virtue of his position, will automatically be a member of the enterprise council. He states his standpoint this way:

"Shall I now urge that in large industrial units throughout the world the workers' participation in management be increased? I prefer to stick to my own affairs: here and now, in my opinion, the conditions are ripe for us to lead in a way more democratic than before and to increase the decisionmaking and supervisory possibilities in management for all those who are responsible for implementation. And that is not a matter of indifference, either: in this way, my economic and decisionmaking independence will also increase."

"What does the fact that from now on the council exercises property rights mean to you?"

"I will take better care that the machines do not stand around unused, that my stock in hand is not too large, and that downtime is less."

"Up until now, this would have been one of your tasks?"

"Of course, but now perhaps my interest will be identical to this. For example, if I loan out a machine which is very valuable but which is inadequately used in our plant to another factory unit or enterprise, then the large enterprise does not 'swallow' its benefit, but rather my unit receives it."

"You will exercise the employer rights above the managing director."

"I consider this natural and very opportune."

"And the fact that, in the course of time, you, too, are elected?"

"This will be the next step, which should be carried out all the way to the shop foreman. I add that for this reason it is possible to use and misuse democracy. It would be very essential for people to understand that the managers' work must not be qualified in the short run, because then there is no innovative flair, no entrepreneurial spirit, no risk. The good manager is not necessarily the one who immediately pays more but rather the one who pursues an enterprise policy as the result of which it is possible to satisfy greater output."

To Study Democracy

And what does managing director Bela Novak say?

"Maybe it derives from my nature but I have always thought that, though the director's responsibility is a one-person thing, before decisions anyway it is worthwhile to ask for the opinion of different expert committees and bodies. That is to say, it does not matter if the spark is not always near me, just let the tinder be mine...The management committee has helped me a lot so far, and I think that the enterprise council outside supervision will also offer a kind of support and protection which every manager today has a need for."

Bela Novak has directed the Csepel Auto Factory for 10½ years, and although his appointment is for an unspecified time, he has already reached the age of retirement. This is why there are those who think that he is assuming no small risk by taking the initiative on formation of an enterprise council. Yet it would not be in good taste to question him about this.

I prefer to forward the opinion of auto mechanic Ferenc Gratzner:

"I have worked in this factory since 1951. I have lived through several shakeups. When Bela Novak came here, our very existence was called into question: we had to stop manufacturing trucks, and merging us with Raba or Ikarus also came up for discussion. A lot of managerial toughness was necessary to get this enterprise out of the impasse. There have been rough years since that time, too, but now we have nothing to be ashamed of, as far as profits and exports are concerned. This is not due to the managing director alone, of course, and yet his

role in it must not be minimized. So I believe he enjoys the confidence of the majority, although he, too, clearly has his opponents."

Naturally, no one wants to treat the switchover to new management forms as a campaign; this is why the process lasts for 2 years. It is pertinent that the process is not forced on an enterprise which moves with greater difficulty; and he who would like to do it is not prevented--with reference to formal reasons.

In concert with the regional party and trade union leadership, the Csepel Auto Factory would like to establish the enterprise council as soon as possible after completion of last year's balance sheet, chiefly so that this strategic decision-making body can formulate an opinion about preparations for the next plan period. Yet the highest authorities have still not taken a stand on their switchover. They are now waiting for approval from the Ministry of Industry and--in principle--only after this can they set to work on the multistage agreement inside and outside the enterprise. Thus, if everything is right, the council can be established by August. But only so "quickly" because they would really like to establish it.

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# CHANCE FOR MORE HARD CURRENCY MACHINE EXPORTS SLIM

Budapest FIGYELO in Hungarian 17 Jan 85 p 15

[Article by Istvan Garamvolgyi: "Machine Industry Export--For Convertible Currency"]

[Excerpt]...The requirements of solidifying the foreign trade balance will define the export tasks of the Sixth 5-Year Plan's time period and in all certainty also of the entire decade. In harmony with the latter the national economic plan assumed that the convertibly accounted export of the machine industry's products will in this plan period also grow continuously and at a vigorous rate and will reach the value level of \$1 billion as early as 1984. In the first 2 years of the plan period the export's value increased by about 10 and 20 percent, respectively, but it was stagnant in the last two years and fell quite a bit short of the performance the \$1 billion export level would require.

The 1983-1984 stagnation of the machine industry's export performance is connected with the foreign market situation, with the development of the business situation. With all this the question is posed like this: Is it possible, and if so how, with what means to further increase the machine industry's convertible export in the given foreign market situation and business situation, to raise it to the level the equilibrium requirements call for? In this respect the dynamic growth time period of the machine industry's export and the machine industry export's present structure may also provide important lessons.

The CEMA countries constitute the machine industry's number one foreign market--in terms of volume as well as from the viewpoint of fitting into the international sharing of labor--and in accordance with this the significant development programs and investments affecting the machine industry have always taken the needs of the CEMA countries, the opportunities of machine industry cooperation with them as foundation. For a long time it was the opinion, or rather the assumption, that these developments by improving the machine industry's technological-technical level will on other markets also increase the competitiveness of the machine industry's products and their convertibly accounted export. These hopes and assumptions were only partially fulfilled; mostly at those development programs which also included the component subunits of the end products. (One good example for this is the production of highway vehicles).

It is certain that the business situation of the times also helped the extremely vigorous growth of the machine industry's convertible export seen in the 1970s. It is a circumstance of not less importance that in the implementation and continuation of the central development programs, development oriented at the convertible export was given an increasing role. (Foreign currency loan construction to improve the balance, loans to increase the convertible export merchandise bases). The machine industry--primarily the large and medium-size enterprises which fill an important role in convertible export--made much use of this development opportunity and the enterprises expanded, modernized their manufacturing capacities--generally in their already developed export profiles.

Based on the principle that many small things do add up, it also increased the machine industry's convertibly accounted export performance that the several hundred production and sales cooperative projects set up during the 1970s with Western European capitalist firms also generally produced the business defined in the contract. The large number of licenses and know-hows purchased during the 1970s and established in production also had a positive effect which also increased the export.

All this must be discussed in past tense also in the sense that these favorable phenomena and effects--which also actively served to dynamically increase the convertible export--have slowed down much in recent years. In terms of real value the higher nominal amount of the export-developing loan budget may possibly reach the 51 billion forint level spent in 1976-1980, but the intensity of developments aimed at convertible export has weakened. Partly because in making export-developing loans the role of import-replacing investments has increased amid the import limitations and frugality. And in part because the large and medium-sized enterprises which earlier led the export-oriented developments have not initiated newer projects, their efforts are concentrated on loan repayment and maintaining the level of convertible export. It is no accident that this year's loan conditions for export-expanding developments are also offering loans for maintaining market positions and stabilizing export incomes to enterprises which economically produce large volume exports and are producing results in convertible export.

The timeliness of this derives from the fact that the machine industry's export is very strongly concentrated in a few enterprises. From year to year the same 15-20 enterprises--the Tungsram, the Hungarian Railroad Car and Machine Factory, the Ganz-MAVAG [Hungarian State Iron, Steel and Machine Factories], the Ganz Electrical Works, the liquidated MEZOGEPTROSZT [Agricultural Machine Sales Trust], the Refrigeration Machinery Factory, the MEDICOR [Medical Supply Enterprise], the Elzett Works, the MOM [Hungarian Optical Works], etc.--produce and sell 75-80 percent of the convertibly accounted export. Several of these enterprises have reached export levels of \$30-35 million, and some of them as high as about \$100 million.

## Unique Merchandise Structures

The additional factors of the growth of machine industry's export--production, sales and third market cooperation with the capitalist firms, manufacturing on the basis of modern licenses--also prevailed with a weaker effect. A number of the Western European cooperative partner firms went bankrupt or left the business and in the case of cooperative projects built on transporting goods here and then returning them, this caused export losses for the Hungarian partners. The upswing seen in cooperation in the decade of the 1970s was followed in the 1980s by stagnation of initiative and readiness to cooperate--partly for economic and business reasons.

Machine Industry Product Export in 1983 (million forints)

	Ruble	Convertible	Of this:	
			developed	developing
	accounting		capitalist	country
Machines, mechanical equipment	24,886.8	16,763.8	4,196.3	11,150.9
Transportation equipment	32,787.7	6,497.3	2,519.2	2,635.5
Electrical industry machinery, equipment	3,335.7	4,165.8	1,927.6	1,877.5
Communication and vacuum technology products	13,636.7	6,663.5	2,874.8	3,278.5
Instrument industry products	13,723.0	3,581.9	1,071.6	1,724.2
Metallic bulk products	2,173.2	2,507.6	1,582.2	701.9
Total:	90,542.1	40,182.9	14,162.6	21,368.5

\*The foreign trade data by type of hard currency differ from the ratios of country groups--socialist, non-socialist. In this case the convertibly accounted machine export also includes that machinery export sold in a few socialist countries which are accounted in free currency.

The most important characteristics and unique traits of the convertibly accounted machine industry export can be seen from this table. In 1983 the machine industry sold 30.7 percent of its total export for convertible currency. (In 1981 this was 28 percent, in 1982 33.5 percent. The ruble-to-convertibly accounted export ratio is also significantly influenced by the dynamics of the ruble-accounted export. As the ruble-accounted machine export grew vigorously in 1984 and the convertibly accounted one in essence stagnated, the share of the latter is expected to sink below 30 percent).

The significant difference in the composition of the ruble- and the convertibly accounted machine export continues to be characteristic. In the developed industrial countries the Hungarian enterprises are selling mostly machine industry products the markets of which are saturated and we hardly have any competitive products in the dynamic product sectors of the international machine trade. From the export



ratio's viewpoint two sub-branches of the machine industry--electrical machinery and equipment manufacturing and the bulk metal products industry--can be emphasized, more than half of the total export of these is sold for convertible currency.

With respect to export the everyday word usage differentiates between socialist and capitalist markets. Analysis of the export of machine industry products requires more precise categorization. Leaving out of consideration the export sold for convertible currency--amounting to about 5 billion forints--in a few socialist countries, it can be concluded that about 60 percent of the so-called capitalist export goes to the developing countries, and that these two groups of countries--the developed capitalist and the developing countries--have rather different merchandise structures from each others in the machine industry's export.

Composition of the machine export's product structure reflects this only in part; the most that can be seen from this is that the ratio of machines and mechanical equipment is low in the export sold to the developed capitalist countries, while it is very high in the case of the developing countries, higher than in the ruble accounted machine export. But if we investigate one level lower and take the merchandise content of the sub-branches, of the main product groups as basis, it can be concluded that in the developed capitalist countries we are selling primarily consumer goods--for example, household electrical machines, light sources, entertaining electronic products, hand and power tools, locks and padlocks--as well as spare parts and subassembly units, while in the developing countries even besides the machinery we are selling production equipment. (For example the export of electrical industrial machinery and equipment to the developed capitalist countries represents refrigeration equipment, electric ovens and rotary electric machines, while to the developing countries high voltage transformers and transformer substations).

The merchandise structure of machine industry export sold to the developing countries is basically favorable from the viewpoint of the production structure and supply capability of the Hungarian enterprises. But there is one unique consequence of this merchandise structure which makes the continuous development of export more difficult. We have already mentioned that machines and mechanical equipment make up more than half of the machine industry's products exported to the developing countries. Most developing countries--since they do not have enough technicians, technical design and implementation and start-up experience and practice--prefer turn-key import, the delivery of complete factories and technological equipment. About half of the export of machines and mechanical equipment consists of complete factories and technological equipment. (In 1983, for example, the values of complete factory equipment delivered to the CEMA countries and to the developing countries were approximately the same). The other--less advantageous--side of the coin is that the export of complete factory equipment usually requires loans, and even in this export profile the continuity of export is uncertain.

If one deal is completed and there are no others the export also declines. (In 1983, for example, the scheduled deliveries of complete factory equipment export constituted about 25 percent of the machine industry's export sold to the developing countries).

It has already been mentioned that 15-20 enterprises produce about 75-80 percent of the machine industry's convertibly accounted export. From this it should--could--be concluded that there is also a high degree of product concentration in export. There is no doubt that there are a few volume-carrying export products--for example, subassembly units for vehicles including the bodies, or the light sources--but apart from these even the traditional products and items which regularly occur in the export each have only a few percent shares. This circumstance is hardly favorable for product development and successful foreign marketing work.

Over the short term it would be unrealistic to prognosticate basic changes or to expect them in the development of the machine industry's convertibly accounted export. We must accept as given the technical and technological conditions for the short term which determine the competitiveness of the products, and in this respect only the improvements in quality and product reliability may provide some improvement. The general opinion is that the foreign marketing work may advantageously or disadvantageously influence the competitiveness of any product. Well, the machine industry's largest exporters have mostly been selling independently for a long time their products which they intend to export, and are very interested in successful foreign market work. In the interest of making the machine industry's foreign trade enterprises compete and force them to do better foreign marketing work, parallel export or, more accurately, the possibility of it has become practically total in scope because after the law was declared there has hardly been any change in the selection of partners. In case of export problems the good advice is a sort of life belt: the export's geographic radius must be expanded, new markets must be found. There is no doubt that the convertibly accounted machine export is concentrated partly in the developed European capitalist countries and partly in the developing countries along the Mediterranean Sea and in the Near East and these regions at the present time are far from the main stream of economic growth. Still, expanding the geographic radius to the dynamically growing regions is not such a simple and handy solution because the greater distance and higher transportation costs greatly deteriorate the export's economic results.

Over the short range--in this and the next few years--the World Bank projects may represent the export development's realistic and usable opportunities without larger investments. On the one hand, more prolific and successful participation in competitive biddings for developments financed in the developing countries, and on the other hand those domestic developments in the financing of which the World Bank also participates. In these developments and investments the domestic industry enterprises in competitive bidding may win contracts and supply opportunities to the extent of 30 percent. (The World Bank finances in convertible currency,

so that in the final analysis cooperation by the domestic enterprises gains currency). But "export" of this character is not implemented automatically, developing competitive bids and strengthening the initiative and participating abilities of enterprises are the conditions for it.

Over the longer range one of the conditions for export development is the good business situation, favorable world economy and world trade environment. Another condition is that renewed efforts must be made to strengthen the development of export orientation. But within this framework the export interests and the industrial development concept should be coordinated. The market-oriented developments, even though in general they have produced the promised extra export, still they have not modified the machine industry's product structure, but rather conserved it.

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POLAND

# SADOWSKI DENIES REFORM TO BLAME FOR HIGH PRICES

Warsaw TRYBUNA LUDU in Polish 29 Jan 85 pp 1-2

[Article: "Does the Reform Mean Only Higher Prices?"]

[Text] Popular opinion has it that the reform means only higher prices. Is it really so? Prof Zdzislaw Sadowski, the government plenipotentiary for reform, discusses this subject with Slawomir Popowski, a POLISH PRESS AGENCY journalist. Here are some excerpts of this discussion.

"There is no greater misunderstanding," states Z. Sadowski, "than to blame the reform for the price increases. Let us remember that we initiated the reform when prices were in disarray and the market was near complete confusion. This was the result of the tremendous jump in inflation. Thus, one of the primary immediate tasks of the reform was to help to eliminate these anomalies.

"In no case can setting the price disarray in order be treated as a one-time exercise. This could be possible only if one could in a single stroke regulate the entire market, assure a proper level of production, completely balance supply with demand and thus eliminate all phenomena associated with low efficiency and waste. Only then could we expect no further general price increases.

"But even in such a situation, additional price changes would have to occur, except they would be of a two-way nature. Depending on changes in costs and the relation between supply and demand, the price of some products would have to rise while others would fall. Such a state would be close to ideal and should be sought. However, it cannot be decreed. It must be approached in a way that is spread out over time in dozens of different operations.

"One hears the statement that the reform is nothing more than price increases. Such a statement is no different from blaming a physician for the sickness for which he is treating his patient. One only has to see what the market looks like today compared to the beginning of 1982 when we initiated the reform. It is true that life is difficult in many ways and that prices and the cost of living have increased, but incomes have also increased to a significant degree. Based on increased industrial production, supplies of goods have increased gradually and visibly since 1983.

"Why are prices increasing? They must increase as long as we are unable to eliminate the inflation pressures, which result from structural attributes of the economy. To change this state of affairs, pious wishes are not enough. It will be accomplished by the mechanisms of the reform, which should eliminate waste and inefficient and unprofitable production, and improve quality, organization and technical progress.

"The payments situation and the need to service debts are important here. This requires exports to exceed imports, which reduces domestic supplies of goods. In addition, we are burdened with the need to prevent disinvestment of production assets and the need to realize investment programs that were started a long time ago. This concerns, for example, the extensive program to expand the tractor industry; the need to construct housing, which can no longer be delayed; health care and protecting the environment.

"Finally, we must be conscious of the great pressures caused by wage increases. In theory, we can visualize solving our problems without price increases by decreasing wages. But who will agree to such a solution?

"But there is another solution: cover cost increases by subsidizing unprofitable production. But this also must be paid for but in another way--by taxes.

"This is a much poorer solution because it encourages enterprises not to be concerned about profitability, lowering costs and improving quality. Instead of being concerned about these things, they will worry about the size of the subsidy.

"However, in this situation we are not helpless. The answer can actually be found in economic reform. We already have accomplished much in the struggle against inflation over the past several years. The rate of price increases and cost of living have diminished greatly. We also managed to eliminate the current jump in inflation. The only thing that remains is the diminishing overhang from the previous period. In addition, the decrease in real incomes has slowed down, and we are preparing to increase real incomes gradually. Taking all of this into consideration, I believe that the price increases should not terrify us because, basically, the level of prices is not as important as their relation to incomes. Thus we should be concerned about the latter relationship, for example, the necessity not to revalorize pensions.

"To slow down inflation and price increases effectively does not require prices to be frozen. What is required above all is to take full advantage of the possibilities offered by the economic reform to eliminate waste and improve the management of fixed assets."

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POLAND

OFFICIAL COMMENTS ON PARIS CLUB, IMF MEMBERSHIP ISSUES

Warsaw ZYCIE WARSZAWY in Polish 9-10 Feb 85 pp 1, 4

[Interview with Zbigniew Karcz, director of the Foreign Department in the Finance Ministry, by Tadeusz Bednarek: "Playing for Big Money"]

[Text] [Question] After many months of difficult negotiations, as the head of the Polish delegation, you have recently signed an agreement with a group of our creditors, who are associated in the so-called Paris Club. What was the subject of the negotiations and what was their result?

[Answer] The subject of these negotiations which have gone on for a year and a half were the guaranteed credits owed by Poland. Their time of repayment fell in the period 1982-1984, when we were unable to settle these obligations. The late agreement was the result of our creditors' breaking off negotiations on the subject of rescheduling the payments after the imposition of martial law in Poland.

The result of this agreement, in most general terms, is that repayment will be delayed for 11 years, counting from 1 January 1985, with a 5-year suspension period for all Polish obligations from the period of 1982-1984 which fall into the category of guaranteed credits. This amount is about 12 billion dollars.

[Question] How do the conditions negotiated by Poland compare to those in documents signed by the Paris Club with other nations?

[Answer] It is difficult to compare this type of negotiation and agreement since the situation of each debtor is different and each time different factors affect the end result, and the evaluation of the obtained conditions for repayment. Taking all things into account, it can be said, however, that our agreement is not under any circumstances a bad one. Of course, it is a compromise between the conditions stated by our creditors in the first phase of the discussion and the position taken by the Polish delegation at the beginning.

[Question] At this point the document has been initialed. Can a situation still occur in which the Polish side will decline to sign the document?

[Answer] Yes, there is the possibility, but I'd like to emphasise that we did not conduct such long and difficult negotiations only to state that we

will not sign the document. Moreover, we cannot be positive that in signing the agreement we may not wish to fulfill the resulting promises. It is the intention of the Polish Government to sign the document quickly. But for our delegation to do so our creditors must create the proper conditions. The Polish position is and remains as follows. We are interested in full, not partial, normalization of credit relations with our partners on the principle of full equality, respect for common interests, and the treatment of Poland on terms equal to those of other countries who are experiencing similar repayment difficulties. We cannot, therefore, accept solutions which would limit credit for us. It would be difficult to imagine signing a bilateral agreement with a country which maintains such restrictions.

After all, all successful refinancing agreements I know of were accompanied by the influx of fresh credit into the debtor's till. It may sound like a paradox, but these are the established ways for restoring the ability to make repayments. We have the right to expect that the creditor nations will allow Poland new credits, moderate, but necessary to the economy.

[Question] From your statement it appears that we cannot yet talk about full normalization of our credit relations with the Western nations...

[Answer] We have not reached this point, but no one expected it to happen at the moment we initialed the document. One must always go through a certain process, and to speed this process we will soon start bilateral negotiations on the basis of the Paris agreement, with all the creditors in the Paris Club. We hope that they will have the desired effect. It is not only our hope, but also a condition. I am also convinced that all, most assuredly the greater part of our partners, wish for a full normalization in our economic relations which still are burdened by an inertia greater than that in, for example, our political contacts.

[Question] Of what significance to Poland is the document that has been initialed in Paris?

[Answer] It has a real importance not only for Poland but to our creditors as well. It closes a period of abnormal economic conditions, half-war, half-peace, which were caused not by our fault, but by the political factors which I have already mentioned. When the agreement is signed, and I believe this will come about, the guarantees are renewed and fresh credit is given to Poland, the last conditions for normalizing our economic and financial conditions will be fulfilled. This is the next step in the process of regaining Poland's position in the world.

[Question] What will be the subject of discussion in the upcoming bilateral talks with the individual countries in the Paris Club?

[Answer] The Paris understanding is only the consensus of all sides describing the framework for the refinancing of our guaranteed loans. It describes the object of the negotiations, the time frame, etc. Only in bilateral talks will decisions of the highest importance to Poland be made. First we must identify our obligations and set the percentage of interest for hundreds and

thousands of individual contracts, and then talk about new credit. On this work will depend our ability to negotiate conditions that are optimal for us and acceptable to the creditors. The negotiations will be played out on many planes and for large sums.

[Question] Does this mean that the Polish side still has some trumps, or will the discussion be conducted under the dictates of the creditors?

[Answer] Your question confirms my observation that after the recent period of unfounded optimism we have descended into extreme economic pessimism. Tired out by the daily shortcomings we do not notice that Poland is not a poor nation. We are an average developed industrial nation with tremendous potential in people, raw materials, territory, and trade. It is not insignificant that we have always approached such negotiations seriously and wish to satisfy our obligations. Another trump in the negotiations is the serious regression in trade with our partners in the Paris Club, which we want to and can overcome. I believe that we and our creditors can be winners in this. We are still one of the largest exporters of raw materials in Europe. There is no talk of being dictated to; after all, generally in the economy, internal and external, less and less can be done through edict. It is harder to say at present which side in such talks, of which there are hundreds being conducted around the world, is the stronger, the lender or the borrower. We are looking for a way that will benefit both sides.

[Question] You have mentioned Polish foreign trade. You are aware of our present and planned activities in this area. Is there in your opinion a fear that after the 11 years have elapsed we may have to sit again at the negotiating table?

[Answer] The risk, of course, would exist if we had not taken economic and organizational actions and tried to deal with our debt problem by rescheduling payment. But that is not the way things stand. We have made many changes in this area. During 1982 for the first time in 10 years, under difficult internal and external circumstances, we have had a favorable trade balance. During the past year the favorable difference rose to 1.5 billion dollars. We have also changed the structure of our foreign trade to our own benefit. If we can maintain and improve this trade, among other things through credit cooperation from our Paris Club partners, then not in 11, but in 5 to 6 years, we could obtain economic results which would guarantee Poland's ability to meet its obligations.

[Question] How are the costs of credit obtained by Poland shaping up?

[Answer] These are huge sums. The present debt amounts to about 27 billion dollars--with an average interest rate of 10 percent, one year's debt service, if we were able to service the debt, would come to 2.7 billion dollars.

Of course, each rescheduling of the debt raises these costs. This is the price which we, unfortunately, are paying for letting our economy "catch its breath," a necessity for rebuilding and reforming it. This is how the rescheduling agreement, which seems so beneficial, increases the debt



obligation with which we will have to cope in the future. But no one has found a solution to this, and Poland is not the only country--other wealthier nations have such problems as well.

[Question] The understanding with the Paris Club occurred at a time when we were receiving signals about the unblocking of our application for acceptance into the International Monetary Fund. It is said that we will be made a member of this institution in the current year. What is your evaluation?

[Answer] We have not set any specific timetable with the IMF administration and talks on this matter continue. I think that there is reason to believe that the decision on Poland's acceptance to the IMF could be made in mid-1985. There are no, and never were any, barriers of a formal-legal, statutory, or any other type that would prevent our entry. All obstacles which existed were strictly political, outside the statutes, and had nothing to do with the functioning of the IMF.

[Question] Are the matters of Poland's quick acceptance into the IMF connected to the talks now taking place in Warsaw with representatives of the IMF?

[Answer] There are initial talks, and at this point I do not think that I should speak of their subject in detail. They are necessary for presenting through the officials of the IMF the application for the admission of Poland to this institution, and are the continuation of talks which were started by the Polish side with the representatives of the fund in autumn of 1981, and which we continued during 1982. This is not the first meeting. It is devoted to, among other things, presenting some supplementary economic data. We must present our new evaluations and discuss a number of technical matters concerned with the preparation of the Polish application.

[Question] You have mentioned that the IMF will expect us to improve our economy. What internal actions are necessary in terms of supporting the refinancing operations that you are conducting?

[Answer] The rescheduling of the loans is a necessary evil. It would be better if we could currently service some of our debts, or eliminate them. Presently the results of our foreign trade are insufficient. As I have said, the current debt service would be about 2.7 billion dollars, with export, which in 1984 amounted to 5.8 billion. Then half of that would have to be designated for debt service. This would cause a further drastic reduction of import which our economy could not endure. To overcome the problem of our indebtedness we must quickly and effectively reorient the Polish economy toward the production of export goods. Presently, we have one of the lowest per capita export indicators of all countries at a similar level of technological development.

By signing the agreement with the Paris Club we will have purchased a 5-year respite for the economy, but we must realize that we are enlarging our future debt and are facing a 5-year of technological starvation. During that time we must reorient our economy toward production and export. The success of the refinancing operation will depend on this to a large extent.

POLAND

# CHEMICAL, ELECTRONICS INDUSTRIES TRY TO KEEP IN STEP

Warsaw RZECZPOSPOLITA in Polish 8 Feb 85 p 6

[Article: "Will the Chemical Industry Keep in Step With the Electronics Industry? A Meeting of Directors of Industries Under the Jurisdiction of the Ministry of Chemical and Light Industry"]

[Text] The need to apply electronics in the economy is unarguable. The June 1983 resolution of the Council of Ministers emphasizes this path toward modernization. The Presidium of the Government has considered this problem several times, the last being November 1984.

Implementing the robotization program involves not only the electronics industry but also the machinery and construction industries and especially the chemical industry, without which the success of the program would be unthinkable. Will the chemical industry be able to keep pace with its requirements?

As stated by representatives of the Ministry of Chemical and Light Industry, for a long time the electronics industry was unable to define these requirements to the chemical industry, and when finally they were able to do so, the requirements were unrealistic. Mutual agreements permitted the hierarchization of the needs of the electronics industry, which requires 600 kinds of products from the chemical industry. Over 300 of these products are now being produced and supplied to customers. Above all they include plastics, paints, lacquers and reagents. However, many products remain that will not be easy for the chemical industry to supply.

If they are products whose production require not only the construction of a new installation or the expansion of an existing one, then it is not a difficult problem because, on the basis of a Presidium of the Government decision, interested enterprises are obtaining the necessary financial allowances, foreign exchange and material supplies. It is only a question of how long it will take to realize the investment. It should be done as quickly as possible.

But the electronics industry also requires material that in general Poland's chemical industry does not yet manufacture, or the quality of present products is unsatisfactory, as in the case of epoxy compounds or materials that are

especially pure. (It should be added that these products are often embargoed on the world markets, that is, they can neither be exported nor their manufacturing technology purchased.) This situation shows how very backward the chemical industry is regarding the needs of the electronics industry. Thus, it is necessary to accelerate essential research and experimental work and to apply its results.

The chemical industry/electronics industry relationship, however, is a bilateral one because one cannot manufacture, for example, high-purity substances without automatic instruments. The representatives of the chemical industry emphasized that a robotization program has not yet been developed.

These recommendations were presented during the meeting of directors of industries under the jurisdiction of the Ministry of Chemical and Light Industry that was held on 7 February. The meeting was conducted by Edward Grzywa. In addition to analyzing the chemical industry's tasks resulting from the program to apply electronics in the economy, a second problem was examined: managing scrap rubber.

Each year 150,000 tons of tires are discarded. To date very little is being done to manage these discards, and their numbers continue to increase. Old tires that cannot be reclaimed can be chemically or mechanically converted or burned, making use of the emitted heat. In Poland, we try anything a little at a time. Thus, as stated during the meeting, we must expand the conversion of scrap rubber, especially using methods that will produce products (reclaimed rubber, rubber meal) that can be used in the rubber industry, replacing imported rubber.

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POLAND

# NEW HEAT TREATMENT PROCESS CUTS COSTS, IMPORTS

Warsaw RZECZPOSPOLITA in Polish 9-10 Feb 85 p 4

[Article: "Heat Treatment Technology and Equipment"]

[Text] Recently Warsaw's Institute for Precision Mechanics has developed many new heat treatment technologies, equipment and control-measurement apparatus. These developments were designed mainly to conserve materials, energy and labor. Industrial plants are interested in these developments. Of special interest to Poland and abroad are the technology and equipment to heat treat machine parts in a vacuum that were developed by the team directed by Eng Zbigniew Latas.

In the realm of heat treatment, the team development processes for bright annealing, clean hardening, impregnation, fluxless hard soldering of tools and machine parts, sinering and tempering. A series of vacuum ovens in the 600° to 1300°C range were designed for these processes. Recently work was initiated on high-temperature heat treatment technologies and equipment. As a result of this work, several ovens operating at temperatures of about 2400°C and a vacuum of  $10^{-4}$  Pa have been placed into operation.

A number of technologies and several dozen vacuum ovens have been placed into operation in Poland's industry and abroad, including the Predom-Mesko Metal Plants, the Mechanical Plants in Tarnow, the Warmet Factory for Precious Metals, the Presovia Siver Products Factory, VEB Berghau and Huttenkombinat, the Betrieb Halsbruche, the VEB Kombinat Narva in Berlin and several other plants.

The vacuum equipment and technologies earned several billion zlotys from exports and antiexport production. In addition, these technologies and equipment enable users to improve and initiate products, to conserve material and energy and to improve work safety and hygiene.

The discussed equipment and technologies won many ministerial awards and the Master of Technology Award and are highly valued by GDR industry, as attested to by the letter of commendation to the Polish ambassador in the GDR from Vice Premier G. Weiss.

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POLAND

#### BRIEFS

SILICON DIODE OUTPUT UP--A silicon reference diode, designed by Mera-Obreus Torun's Research and Development Center for Specialized Electronic Systems, was awarded a gold medal at the INVEX-84 International Exhibit for Inventions and Technical Novelties in Brno. To obtain such a significant achievement, the Torun institution cooperated with the Mera-Pnefal Industrial Automation Enterprise in Falenica. Last year Obreus produced several thousand of these diodes. This year, production will be increased. This will eliminate imports (a single diode costs \$10) and permit exports to the CEMA countries. [Text] [Warsaw RZECZPOSPOLITA in Polish 4 Feb 85 p 3] 11899

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YUGOSLAVIA

## COLANOVIC COMMENTS ON VARIETY OF FINANCIAL ISSUES

### Cheap Money

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1768, 18 Nov 84  
pp 12-14

[Series of articles by Branko Colanovic, economist]

[Text] A few more weeks and interest will be computed for the year. Owners of money, domestic money and foreign exchange, await it with impatience; debtors, especially in the economy, with anxiety.

The policy of cheap money conducted for decades now belongs to the past. We are rushing bravely toward a positive real rate of interest.

That is correct in principle. The very low interest rates have been a recrudescence of past times, of the abandoned centralistic model for the formation and distribution of accumulation. Everything in the Yugoslav economy long ago decentralized: prices, distribution of income, the banking system, foreign exchange transactions, investments, even beyond a sensible limit, even to the point of breaking up large economic systems such as the railroads or the electric power industry, but economic policy has persistently kept nominal rates of interest in the zone of token quantities. Only since 1982 have changes begun to occur.

Has this been inertia or a lack of confidence in the economic functions of interest in a market economy? Was it out of a fear that the operation of realistically positive rates of interest would thrust numerous inefficient economic organizations into irreversible business losses, with consequences in social welfare and politics which could not be controlled? Perhaps the banks, which in our system are actually managed by debtors, have looked with understandable resistance on any sort of introduction of higher rates of interest. But perhaps, as for millennia in the past, it was a question of ideological views concerning the nature of interest as a social category.

In fact all down through history we encounter a conflict between two conceptions, two approaches, two interests, religious or political dogma and economic expediency.

## Economics, Religion and Dogmas

In the Old Testament Jehovah deals out good and evil, wealth and poverty to people, he is the supreme factor of distribution, like the central administrative authority such as we ourselves are familiar with. There is no place for interest in that "system." It is stated explicitly in Deuteronomy: "Thou shalt not burden with interest anything which you lend to your countrymen, money, or food, or anything else which might be burdened with interest. You may burden with interest loans granted to strangers, but not to countrymen...."

Within one's own nationality--solidarity. For foreigners, i.e., pagans and the like, it is permitted to exact interest. We see something of the kind in our own country in the buying and selling of foreign exchange, precisely according to whether it is done within one's own "national" SIZ [self-managing community of interest] for foreign economic relations or in interrepublic exchange.

Plato condemned interest. He saw in it a danger to prosperity and to the firmness of the state, since interest tends to stratify society into the rich and poor. He did not think of taxing the income from interest, nor indeed has Yugoslav economic policy today. However, practical life in ancient Greece had altogether different views. In the 5th century B.C. the temples extended loans at an interest of 10 percent, while at the same time numerous private exchange offices were springing up--banks, on the tables (counters) set up in public squares, and their rates of interest went even as high as 30 percent.

In Rome interest was limited to 8.66 percent up until the middle of the 4th century B.C., when the people's tribune Lucius Genutius introduced a complete ban on the lending of money at interest out of a fear of social unrest. This "administrative" measure proved, however, to be unsuccessful, since interest was soon legalized. Before the end of the pre-Christian era the maximum rate of interest in Rome was 12 percent, but in the Roman provinces it often went even as high as 48 percent because of the riskiness of lending.

The early Christians were resolutely opposed to all kinds of interest. The Apostle Luke quotes Christ: "But you must love your enemies and do good; and lend without expecting any sort of compensation...." This was the basis for later definition of institutions and the foundation for thinkers, the synod in Echyrus, the Council of Nicaea, Saint Ambrose of Milan, Saint John Chrysostom, Saint Hilaire de Poitiers; up until the 13th century the Catholic Church did not resort to distinguishing between interest that was compensation and interest that was gainful. The purpose of the first is only to reimburse the lender for possible injury or loss, that is, to pay him for services rendered. The latter continued to be prohibited up until the 18th century. Appealing to Aristotle, Saint Thomas Aquinas provided the theoretical clarification. Money may be productive only through the labor of the person who uses it; profit is not a part of money in and of itself; the interest on a loan is exploitation of the debtor, since he must set it aside from the result of his labor.

However, behind the screen of these medieval church prohibitions gainful rates of interest were exacted in a brisk trade in goods and money. Since interest

could not be expressly stated in the exchange offices used for obtaining a loan, it was concealed in the price of the goods or in the rates of exchange of currencies exchanged. We will see similar occurrences in our own practice. Customers must "pool" investment capital with sellers of scarce goods, or place foreign exchange at their disposition, and so on.

Economic factors, as we see, carry the day over the dogmas. The Holy See itself and its regional organizations, which in the past was the principal enforcer of the ban on interest, is now engaged in the wholesale extending of money loans to borrowers all over the world.

#### Low Interest and High Inflation

Why have we held on to a cheap money policy so long? The interest rates of our banks, even after the 1965/66 economic reform, which was an attempt to bring economic laws more into play in economic life, remained unnaturally low. Back in 1981 the discount rate of the National Bank of Yugoslavia was only 8 percent, although the rate of inflation was 46 percent! It was no secret that for decades we were the only ones in Europe to have a negative real rate of interest, i.e., a rate of inflation that was higher than the nominal rate of interest. The economy, which was striving to act sensibly under those circumstances, found a way out in overruns of various kinds, poor credit discipline, "black market" rates of exchange, extortion of resources for development, and so on.

Economic policy never seems to have felt the real need to make full use of any of the two main functions of interest. The role of interest in guiding accumulation toward desirable capital investments is predominantly performed by strong noninterest instruments, and its truncated role in forming accumulation and in the supply of financial resources is supplemented by the use of foreign credits on a broad scale.

As for the distribution and use of accumulation, that is, its guidance toward that pattern of investment which brings the greatest yield, i.e., new income, it is not difficult to see that function is performed instead and to a greater extent by bureaucratized social plans, commitments of sociopolitical communities, investment decisions of tie-ups between politicians and professional managers, and so on. This is that pleasant [sic] area of statized power over the economy which is supposed to be pruned close by the Long-Range Economic Stabilization Program.

Is that possible? I am not thinking here of the resistance exerted against the new policy from that area, and especially from the top levels of the newly created economies of the republics and provinces. The essential thing will be for us to get the market (interest) and the plan working harmoniously in the direction of optimum use of accumulation, without backsliding toward group-ownership and unsocialist relations, which is objectively possible.

But the low mobility of manpower, the very high price disparities, and the nonconvertibility of the dinar are major obstacles to the constructive impact of interest in this sense. Interest cannot play the role expected of it until these and similar problems are dealt with.



The distorted character of the foreign exchange system represents an extremely strong interference to better performance of the role of interest. The uncontrolled situation which prevails in the distribution of foreign exchange is by response turning into its opposite, into the strictest bureaucratic control over the use of foreign resources. The Yugoslav economy has been cut off from direct contacts with foreign financial markets and thereby from the influences on the level of the rate of interest in our country which could come from there. The persistence with which the present foreign exchange "system" is defended has long ago crossed the line into a "tyranny of the status quo," as Milton Friedman puts it.

As for the role of interest in formation of accumulation and in the supply of financial resources, a positive real rate of interest can contribute a very great deal even under our conditions. Ignoring the less important and noneconomic sectors, we will take the two main ones: the economy and the population. The former has a large shortage of financial savings, since its appropriations for investments are larger than its own money accumulation. The reverse is the case with the population.

(Billions of dinars)

<u>Economy</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Money accumulation	401	559	754
Appropriations for investments	539	708	874
Shortage of accumulation	138	149	120
<u>Population</u>			
Money accumulation	205	262	405
Appropriations for investments	112	130	160
Surplus of accumulation	93	132	245

There are two reasons why the growth of personal savings has major importance. First, this accumulation is being guided into economic purposes. Second, it diminishes the need of the economy for foreign investment capital. We should not forget that in the period 1977-1979 a very large share of foreign credits was used precisely for conversion to dinars, which were in turn used for various domestic expenditures (construction work, payment of duty, and so on).

The error lies in the essential departure from the Anti-Inflation Program adopted in 1982. It committed itself firmly to a positive real rate of interest, but it was not assumed that it would be arrived at at any price, by adding a certain difference to the rate of inflation which happened to occur spontaneously, whatever it was. On the contrary, the Anti-Inflation Program specifically required that "relations between the rate of inflation and the rate of interest are to be normalized primarily by lowering the rate of inflation during the transitional period up to the end of 1985." This program assumed that economic policy would be vigorous in carrying out numerous measures envisaged by the stabilization activity so that inflation would be brought down consistently. In actuality it has risen extremely, making the formula of a real positive rate of interest counterproductive.

## The Strategy's Six Points

I think that Yugoslav anti-inflation strategy can be expressed as six points. First, destatization of economic functions to a high degree; not being achieved. Second, unity of the market; not being achieved. Third, improvement of the structure of the economy; not being achieved. Fourth, fundamental optimalization of foreign economic relations; not being achieved. Fifth, general economy; being achieved partially, primarily in the personal sector. Sixth, stimulation of productivity; not being achieved.

We recently heard estimates that in 1984 we would have a rate of inflation of 55 percent. If the real rate of interest were to be positive, its rate would have to be higher. It is the position of economic policy that this would be achieved in April 1985. If the rate of inflation at that time is close to what it is now, we will be like those medieval Chinese moneylenders in the time of the Tung Dynasty who are famous for the highest rates of interest in history.

A few days ago we read that the OECD believes that inflation is the greatest burden in Yugoslav economic developments. The assessment of the OECD is "that inflation at the present level is incompatible with a permanent policy of real rates of interest."

It is beyond doubt that economic policy is failing in its approach to really halt inflation. Given those circumstances, what is to be achieved by raising interest rates further, as has already been envisaged for the upcoming New Year?

By and large nothing should be expected in the guidance of accumulation, i.e., in the effect of the rate of interest on investments toward improvement of the economic structure and the like, since the conditions have not been created for that to happen.

As for the effect of interest on turnover in the economy's business operation, a faster rate of circulation of resources, a shrinking of inventories, and so on, the effect of a real rate of interest can be anticipated only when the domestic market becomes unified through removal of republic barriers and other regional barriers and when supply on it is adequate and regular. Also, when the supply which is imported is satisfactory thanks to changes in the foreign economic system. Otherwise, high rates of interest lead the economy toward losses.

## A Strict System

A real rate of interest presupposes that the government guarantee that the legal system will be equally strict throughout the entire economic space of Yugoslavia. That has to be achieved first of all.

It is obvious that those changes and improvements in the political system which make the entire process of economic stabilization feasible are also necessary to the operation of a real rate of interest.

Some people are coming to the assessment that abandoning the policy of cheap money is a return to capitalism! But we see a positive real rate of interest in all the East European socialist countries on the foundations of pricing through central planning and all the rest associated with that.

By postponing the application of the principal points of anti-inflation strategy, economic policy is compromising the real rate of interest, which otherwise would be an important tool for influencing economic flows.

The road ahead to a real rate of interest does not lie in raising bank rates of interest on top of the rate of inflation which has formed spontaneously.

If we do not control inflation, it is not right for the rate of interest to control us.

#### International Factors

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1771, 9 Dec 84 pp 12-14

[Text] With respect to our foreign economic position, we found ourselves at the lowest level toward the end of 1982. A deficit in the balance of payments for the sixth year running, foreign exchange holdings sufficient only for 5-6 weeks of importing, a maximum foreign debt, certain important commercial banks not meeting their international obligations for months. Much the same in domestic developments. The extinguished foreign exchange market showed that the foreign exchange system had been overthrown; the domestic market in disorder, a shortage of certain of the most important fuels and raw materials and indeed even foodstuffs; a 30-percent rate of inflation does not instill hope that exports can be substantially increased. We fell to 60th place on the international ladder of creditworthiness, and the doors of financial markets were closed to Yugoslav commercial banks.

Economic policy is either unaware of this or does not know what practical and complete package of measures should be undertaken. The Anti-Inflation Program has already been adopted, but is not being applied, since other areas of the Long-Range Stabilization Program are only now under consideration. After the truly major mistakes in the period 1977-1979, we now have a lengthy hesitation.

This is where for the first time in history we meet the "five-legged animal." It knows that we cannot repay the credits.

On 19 January 1983 the largest banks met in Zurich on behalf of about 600 commercial banks which were Yugoslavia's creditors. That is one of the legs. Then there is the International Monetary Fund, which is the second and principal leg. It reports that studies done in advance show that the World Bank (the third leg) would cooperate, as would the Bank for International Settlement in Basel (the fourth leg). The same applies to the governments of 15 Western countries (the fifth leg). They have referred to themselves as a "five-legged animal." The Federal Executive Council, the National Bank and

several commercial banks are represented on our side. The agenda was extension of Yugoslavia's debts.

The pragmatism and agility with which all of these legs reconciled their positions left a truly deep impression. Repayment of the principal was extended for 6 years, the grace period was 3 years, interest would be paid without postponement, and it was raised higher than the original terms. The Federation and the National Bank of Yugoslavia would guarantee all obligations, new funds would be loaned only to them or under their guarantee. In the name of all the creditors. The IMF examined and reconciled with the Yugoslav Government those measures of economic policy which would ensure repayment of the debt. And the creditor itself, the IMF, is the "ideological" leader of the creditors, the supervisor and informal guarantor that the borrower will not be delinquent. That is also the way it works with other debtor countries.

There are two aspects to the difference between us and the IMF. At one and the same time the offspring and exhibit of the business and legal inexorability of the industrial world, the IMF does not in principle depart from the rules of the game as they have been laid down. In our domestic life legal strictness is rare; the republic-provincial umbrellas are reliable protection; the inspectorates, the Social Accounting Services and the judges have been localized; the self-management accord is at times only a ceremonial act; even short-term credits from primary note issue of the National Bank of Yugoslavia are being turned into permanent working capital.... Second, the standard set of formulas which the IMF applies in consolidating the debts of the developing countries does not square with the nature of our economy in many respects.

#### A Dual Difference

Like Procrustes, the highwayman from Attica, the Fund lays its victims out on one and the same iron bed, cutting off the ends of their legs or stretching them with a rope if they should be longer or shorter than the bed. But why did we have to get into that bed in the first place?

I am increasingly convinced that we could have avoided a general international postponement of the debt. I am not speaking about the shortcomings of economic policy in 1977-1979, mistakes are mistakes. But since the spring of 1980 it has been obvious that the most urgent measures are essentially necessary to putting order into the country's foreign economic position.

Measures which would undoubtedly have resolved the problem in a period of 2 years would have had to have included establishment of accurate centralized recordkeeping of the country's indebtedness; an expansive enlargement of exports of goods and services; a more lasting settlement of the question of importing petroleum on credit; faster use of resources obtained from the World Bank and others for major investment projects; a considerably larger inflow on the basis of joint venture; stimulation of remittances of workers and emigres in every way; forcing the commercial banks to discharge their credit obligations instead of giving preference to payment for imports; and other measures. Even action in 1981 would have solved or moderated the problems, but it was not undertaken even in 1982.

## The Logic of Creditors

But let us get back to the IMF. There is criticism to the effect that the document which it advocates in solving the problems of debts is not suitable to the developing countries. This criticism has been heard in the analyses of economists, in speeches by politicians, and even in street demonstrations. The approach to the doctrine is excessively restrictive. The tendency is above all to liberate stocks of goods for export through harsh reduction of domestic consumption as a way of repaying the debt. Development, the standard of living, employment and social welfare relations, that is, precisely what are most important to developing countries, are in the background.

That is the logic of creditors, but the IMF, at least according to the bylaws, cannot be their representative alone. The essential thing for everyone ought to be equipping the debtor to discharge the credit obligations on time, but not at the price of a further mutilation of his general economic position and not by intervening in domestic economic policy, through imposed practical measures.

The conclusion cannot be escaped that the IMF has taken as its vision of the correct economic policy of the developing countries what constitutes the economic program of the present American administration; it is under the influence of that administration. "What is good for America is good for the entire world," Donald Regan, U.S. secretary of the treasury, told a group of newsmen last September. And the United States of America has 20.08 percent of the total number of votes when decisions are made in the IMF. Next comes Great Britain with 6.94 percent. The United States has a larger quota (number of votes) than the 106 nonpetroleum developing countries taken together.

The IMF, then, administers a combined therapy in treating overindebted developing countries. There are now about 40 countries undergoing that therapy. In front of all the creditors it dangles the prospect of a rescheduling of the debt and of new financial resources on the one hand, but it imposes standards for the conduct of economic policy ("stipulation") on the other. The debtor country must administer a certain "program of adaptation" in order to qualify to obtain a loan from the IMF and thereby to qualify for loans from all the others.

## The Polak Model

In evaluating a country's qualifications the IMF uses what is referred to as the Polak model, which was named after the Dutch economist J. J. Polak, whose theories are based on the monetaristic approach to the balance of payments. The model embraces a number of indicators whose set, taken as a whole, is supposed to determine the entire balance-of-payments achievement of a country applying for a loan. The principal parameters are the budget deficit of the government and the public sector of the economy, the level of bank credit extended to the latter, the size of payments in arrears under international obligations, especially arrears in the repayment of loans, in the repayment of commercial credits on goods and services, and then the level of domestic credit lendings of banks and the country's net foreign exchange reserves.

If the IMF is to approve the loan, it must be agreeable to the projected movements of all these variables, in their overall effect, according to the monetary model that is applied to all countries applying for loans.

The IMF insists on this synthetic result of the model, which is necessary for the country's foreign economic position to be put in order and is sufficiently flexible with respect to complementary placement of the variables within the limits of the synthesis examined by the model. Problems arise, however, when the Fund undertakes to set forth practical measures of economic policy which are supposed to guarantee application of the model. In some places the demand has been made that price controls be abandoned, in others that subsidies to agriculture be abolished, that certain social welfare benefits be abandoned, that real earnings be reduced, indeed even that nationalized enterprises be returned to the private sector. That is why there is so much bitterness toward this model in numerous developing countries.

#### The Conversations in Zurich

One fortunate circumstance arose in our case. Preparation of the Long-Range Stabilization Program was well under way at the time when talks began in Zurich. The Anti-Inflation Program had already been adopted. It called for monetary pressure on demand by slowing down the money supply; reduction of resources for government and social service expenditures; larger channeling of bank credits into the working capital of the economy so as to achieve capacity utilization; gradual liberalization of prices and revision of price parity; the policy of the real rate of exchange of the dinar and realistic interest rates; a stricter procedure toward economic organizations operating at a loss; consistent application of distribution according to work. In qualitative terms all these measures could fit the IMF model. The difficulties arose in the quantitative and dynamic aspects.

The IMF wanted harsher restrictiveness with respect to certain measures (monetary and credit regulation, government and social service expenditure), abrupt changes of certain ones (the rate of exchange of the dinar), and with respect to certain others much faster application than envisaged by the Anti-Inflation Program (real rates of interest and liberalization of prices). Perhaps an essential difference should be seen between the commitments contained in the Anti-Inflation Program that a vigorous social welfare policy must be conducted under the new circumstances, above all with respect to higher employment, and the Fund's model, which a priori omits the social welfare factor, since it is insensitive to a rise of unemployment or a drop in the standard of living.

It is well known that these differences, be they substantive, quantitative or dynamic, burden the economic policy with very complicated problems under the given circumstances. What is more, however, it burdens its own self by going out of its way to apply only certain points of the stabilization program outside and in advance of its entire context.

### Lower and by No Means Higher

Inflation is one of the key indicators of a country's economic condition, and it also has essential importance to its foreign economic position. Instead of inflation dropping one-third between 1982 and 1985, as called for in the Anti-Inflation Program, it doubled. Looking at it academically, it was determined by the factors of costs, demand and structure. However, without breaking down the artificially raised economic and legal barriers in the unified space of Yugoslavia, without raising labor productivity, nothing can be done to effect cost inflation. If government and social service expenditure are not reduced, if radical changes are not made in housing policy, the mere reduction of final and investment consumption, which has been in effect for several years now, cannot yield the necessary results either with respect to cost inflation or with respect to demand inflation. Unless there is a unified Yugoslav development plan, the poor composition of the economy, which has led to structural inflation to an enormous degree, cannot be corrected. As a matter of fact, all these three types of inflation in our country are highly interwoven and feeding one upon the other.

Unfortunately there is no public record of what economic policy specifically envisages for 1985 with respect to the rate of inflation.

Various estimates were heard at the recent conference of Yugoslav economists in Opatija. The rate of inflation will be 45 percent, some argue, others report that their studies come out with 60 percent, and yet others, again with arguments, see it at 75 percent.

Had the Delphic oracle been asked what the rate of inflation would be in Yugoslavia in 1985, she would have answered from her three-legged stool covered with a snake skin: "Lower certainly not higher certainly extremely serious." She would leave it to us to put in the commas where we like.

Another key question: How did we fall into such a large foreign debt in the first place? At the end of 1983, with a debt of \$20.5 billion, Yugoslavia was in eighth place on the world ladder of indebtedness.

### The Foreign Exchange Sieve Has a Hole in It

Leaving aside all the profound roots which are related to the shortcomings and errors of development strategy and development policy in the past, there can be only one answer. The foreign exchange system introduced in 1977 in and of itself had to pull the country into an uncontrolled foreign economic situation. From the very outset it operated like a sieve with a hole in it through which any foreign exchange deficit could pass until that gigantic one in 1971, along with every foreign borrowing, all the way up to the likewise gigantic jump in the foreign debt of \$7.2 billion just during 1979 and 1980!

That system displayed, as I said a few years ago in the debates in the Federal Social Council for Economic Affairs, "design errors" which made it unable to function. The later repairs, up until this present time, have left only the worst of it still alive, the monopoly of the final exporters over the foreign

exchange and the impenetrable enclosures around the republics, but they have covered over the decentralized self-managing economy with a flood of statism.

The subsequent legislation for all practical purposes placed in the hands of the government the entire area of foreign credit relations and actual concern about the repayment of debt. That halted a further cutting away of credit-worthiness. The conditions which we obtained in rescheduling the debts in 1984 were in all respects better than those in 1983.

Probably the worst has passed. Two years ago many people in our country did not know that the essential thing for foreign creditors is to pay the interest on time. Now everyone should have understood that. And if as a consequence of the poor conditions on the international market the prospects for world banking are not the brightest, the lenders will talk about payment of the principal, trying to squeeze out as much as possible with respect to the price of the credit.

They can hope to achieve even something beyond that in the "stipulation." However, the sole principle which they themselves can explain is that financial terms and conditions for credit are one thing and the solutions whereby economic policy guarantees the return of the resources are something else.

When we speak about "reliance on our own resources," this has to mean introducing measures which at the earliest date would correct the foreign economic position which we have been neglecting since 1980. In 2 or 3 years the five-legged animal could probably belong to the chronicle of the past.

#### Low-Priced Exports

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1774, 30 Dec 84  
pp 12-14

[Text] Having read that the draft of the Resolution for 1985 envisages a 17-percent increase in exports of goods and services, we were able to state enthusiastically that once again the planners have taken off in unassisted flight. This rate was later cut back to 12 percent, closer to the ground.

The resolution reminds one of the Trojan prophetess Cassandra. To punish her the gods saw to it that no one believed her.

However, we have to believe in what we have to fight for. A strong growth of the inflow of foreign exchange is the only way of freeing ourselves as soon as possible from the friendly understanding of foreign creditors by persistently reducing the level of foreign debt.

It is almost discouraging to run down the catalogue of consequences of overindebtedness.

The pattern of production makes the economy very dependent upon imports, but the foreign exchange which must be used for the foreign debts is lacking for the imports. This amounts every year to \$5.5-6 billion and represents nearly



half of the total value of imports. Converted to dinars, we get 1,100-1,200 billion dinars, which is more than the total money accumulation (including depreciation) which the economy achieved in 1983.

Which accounts for the strong influences that result in underutilization of capacity and low productivity of labor. These are some of the principal factors in inflation. This accounts for the impossibility of increasing employment by opening up new jobs, since available real accumulation is lacking for them. If a large new addition to the labor force was inevitable for social welfare and political reasons, the impact in the direction of high inflation is also inevitable. The dried-up importation of capital goods, including the introduction of new technologies, means remaining in a state of technological obsolescence.

### Three Possible Variants

If we go back to the 12-percent "mandatory" growth of exports, we will see three possibilities.

First, export prices rise. Insofar as they rise, the physical volume of the growth of exports must be smaller, within the limits of the nominal rate of 12 percent. That naturally would be the best version, provided higher sales prices can be obtained.

Second, export prices remain unchanged. Then the physical volume of exports must increase 12 percent. Something like that occurred in the decade that preceded the 1965 reform. After the reform the average growth rate of the physical volume of exports dropped steadily, and it was lowest after introduction of the new foreign exchange system in 1977, when the 6-year average was 1 percent.

Third possibility, export prices are lower. This version would mean that the growth of the physical volume of exports must be larger than 12 percent. It is difficult to dispel the fear that under present circumstances this, the worst case, can [sic] be avoided. Comparing 1984 to 1983 (10 months) export prices were down 4 percent. This is the second year in a row, since the comparison of 1983 to 1982 showed a drop of export prices (2 percent) for the first time in nearly two decades.

### Infantry Against Missiles

More and more we are exporting an ever greater total weight of goods for an ever smaller total value. It seems that the outflow of the national income is getting larger and larger. The table forces us to ask--why?

The figures are for Yugoslavia's total exports, in millions of tons and billions of dinars, at the same rate of exchange for all years.

An answer can be made to this question only after an exhaustive study. But the system of foreign economic relations must be the first offender to be charged. It is based on an uncontrolled linkage of imports to exports of each

individual organization of associated labor and on the closed-circuit "balance sheet" of each individual republic or province. Exports at any price is the only result that could come of that.

<u>Indicator</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> <u>(10 months)</u>
Quantity of exports (millions of tons)	9.7	12.1	15.0	13.2
Value of exports (billions of dinars)	1,273	1,238	1,210	1,010
Value per ton (thousands of dinars)	131	102	81	76

It sounds grotesque, but the "system" here is to sell a larger and larger tonnage for less and less money.

If we leave to one side the less important steps, which everyone knows cannot yield practical results in the coming year, the resolution emphasizes a number of measures in order to achieve the projected export target. In the first place there is "increasing the motivation" to export "based on income," which is to be accomplished "primarily by the policy of the realistic rate of exchange of the dinar, and then by means of credit policy, tax policy, and policy in other areas.

In the light of experiences to date, that would mean that the dinar's rate of exchange will continue to drop out of all proportion.

However, the rate of exchange of the dinar is not realistic if it is taking upon itself the role of the other measures of economic policy which are lacking.

The rate of exchange, as it is stated in the Anti-Inflation Program, should solve only those problems of exports which have arisen because of disparities between domestic and foreign prices. After 1976, when the dinar was actually convertible, economic policy first opted for an unnecessarily strong dinar, correcting the mistake at the outset of 1982. However, then it went to the opposite extreme. The commitment to a markedly weak dinar, which was pursued in 1983 and 1984, is in clear conflict with the Anti-Inflation Program. It is being resorted to because there is hesitation over the other measures of supporting exports, which are inadequate.

Yugoslav exports must overcome not only price disparities, but also the competition of powerful companies, their scientifically organized marketing department, strong resources for sales financed with credit and for advertising, their effectively organized maintenance services, not to mention product quality, design and so on. They must also overcome government protectionism, which is on the rise all over the world, a wide variety of tariff and non-tariff barriers which the industrial countries, overburdened with high unemployment, are mercilessly raising against imports from the developing countries. Under such circumstances intensive use of disproportionate devaluation is reminiscent of the general who sends only his brave infantry into battle

against an enemy armed in the most modern fashion, with artillery, missiles and an air force.

#### Lower Export Prices

In 1983 the dinar was devalued 100 percent, and in 1984 another 60 percent. When it is added up, it now takes 3.2-fold as many dinars for \$1 as it did at the end of 1982. Over those same last 2 years inflation in the OECD countries totaled about 12 percent, while in our country it was about 115 percent. Even if we allow for sizable errors in the computations, it turns out that the dinar was probably devalued about 50 percent more than would have corresponded to the objective formula contained in the Anti-Inflation Program.

It seems obvious that the dinar has taken upon itself the role in the export sector of making up either for what we are not achieving or what we are losing somewhere else.

We are referring here, for example, to the foreign exchange receipts from international transportation and insurance of freight and passengers. That inflow was \$2 billion in 1980, and then, falling steadily, it ended up at about \$1.5 billion in 1984. Here we are certainly not dealing with an unfavorable rate of exchange for transportation services, but a situation in a large portion of the transportation activities that is bad in terms of organization, equipment and operations. Similarly, the rate of exchange of the dinar must make up for losses which are contained in the prices of goods thanks to the erroneous foreign exchange system. As we said, in both 1983 and 1984, i.e., in precisely the years when the disproportionate devaluation of the dinar recurred, we had a drop in the export prices of goods. It should be borne in mind that every drop of 1 percent in export prices signifies \$100 million less inflow of foreign exchange.

The Resolution for 1985 also envisages other measures to support exports. It mentions guidance of imports of raw materials and equipment to meet the needs of the exporting economy, the most favorable terms and conditions for the credit financing of exports, lower rates of interest on primary note issue intended for exports, resources of the Yugoslav Bank for International Economic Cooperation to be furnished for the credit financing of exports of equipment, ships and work on capital investment projects abroad. There is good reason to anticipate that the impact of these measures will be more favorable than in the past.

Yet the main question remains: What is the general capability of the Yugoslav economy, as an organic entity, of achieving a 12-percent growth of exports?

It is becoming more and more noticeable that economic policy is setting the so-called exporting economy apart as some separate sector. Its measures in the field of imports, domestic credit financing, the rate of exchange, the taking of foreign credits, etc., have been aimed more and more at that part of the economy which is the direct exporter. However, the problems and difficulties of the "rest" of the economy, a considerably more numerous sector, are decisive even for exporting activity itself.

The results in the augmentation of exports cannot be lasting if the "exporting economy" is isolated as a separate sector. That is in fact the lesson to be learned from the same approach in the period after introduction of the 1979 foreign exchange system. We first saw a 3-year rise, then a fall, then another growth of exports, achieved with forced measures.

#### New Economic Divisions

That in fact is exactly the point of how indispensable it is, and this can never be sufficiently emphasized, to implement as fast as possible all those measures of the Long-Range Economic Stabilization Program which restore to health the Yugoslav economy as a whole. Also, how necessary it is to understand that only a single development plan for Yugoslavia as a whole can give hope to Yugoslav exports in any long-range sense. Otherwise the doping of the "export economy" with direct measures, especially the disproportionately devalued dinar, will continue to be inevitable.

Here again we will see the roots of resistance to the Long-Range Program. It is a question of a clear "conception" of special interests: the foreign exchange belongs to the final exporters, the rate of exchange is the principal instrument used to support exports, that is how foreign resources are obtained for exports and credit is repaid, obligations to federal funds and to stimulate exports are thereby diminished, and surplus profit (black market) is realized.

A minority gains what the majority loses.

As is true everywhere, the principal danger to exports comes from high inflation. If it cannot be pressed downward, nothing is left but specific measures of direct support to exports. Inflation and devaluation are bound together indistinguishably.

The introduction of "real economic categories" will not in and of itself be able to stop the high rate of inflation. Some people truly expect too much in this respect from real interest rates, real depreciation, realistic taxes, etc. All of this, and more as well, exists in the countries with a pure market economy, and nevertheless inflation has reached high rates in many of them. Over the decade 1970-1980 inflation averaged 14.4 percent a year in Great Britain, 15.3 percent in Italy, 15.9 percent in Spain, and much the same is the case in several countries of Europe. They looked for a remedy by cutting back employment. We would have to seek it in a harmonious effect on the structure of the economy as well as in the direction of the full efficiency of its factors of production, linked together through self-management.

#### The Tactics of Postponement

Exports at low prices have already created headaches for us abroad. There have been charges of Yugoslav dumping, altogether unjustified. The sale of exports at prices lower than domestic prices is not some general Yugoslav policy, as in the case of the classic Japanese dumping. It simply follows spontaneously from the foreign exchange system and the role that is accordingly imposed on the rate of exchange of the dinar.

A true danger may ensue if as a consequence we have in 1985 the third straight year of a lower export price. Exports in physical terms would then have to grow not 12 percent, but by as much more than that as required to make up for the lower prices. That would draw off onto foreign markets larger stocks of goods than is allowed by the anticipated and necessary halting of the drop in the real standard of living.

In this case a still more disproportionate devaluation of the dinar would greatly intensify inflation and burden the economy.

The foreign debt of the Yugoslav economy, expressed in dinars, increased by about 1,500 billion dinars as a consequence of the drop of the dinar in 1984. These differences in rates of exchange will have to be paid one day. And if we resort to "amortizing" them over unreasonably lengthy periods of time, this would mean that we have contributed to inflation by covering what a privileged minority of final exporters actually spent.

Why has the change of the foreign exchange system been postponed again after such long procrastination? Why was such a lengthy period adopted, up to 1986, to do that job? How can the damage resulting from that be justified?

And then, is the date 1986 itself reliable? Quintus Septimius Tertullian would say: "I do believe it, since it is unlikely."

The Resolution for 1985 states that "a program for step-by-step achievement of dinar convertibility will be drawn up and its implementation will begin." That is truly a task worth working on.

#### Effects of Restrictive Policies

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1777, 20 Jan 85  
pp 20-22

[Text] There is nothing among the apparitions of mythology so indelibly revolting as the three harpy sisters. The faces like that of a woman, the body of some monstrous bird, the torso immense, and long curving claws. With unprecedented speed they carry away and gobble up everything they find, leaving behind an insupportable stench. They leave behind them devastation.

Unemployment, inflation and worthless investment projects eat up everything that is essential to us: income, ethics, self-management and the future. Those forces can shake us to the foundations, since they are the principal and immediate factors in the crisis. They are indissolubly connected, and each intensifies the others. Our harpies....

We have remained far and away, so far it boggles the mind, in last place in Europe with respect to all three of these phenomena.

In late 1984 about a million persons seeking employment were on the rolls. This is 4.4 percent of the total population, 7 percent of the population of working age, 10.5 percent of the labor force and 15.5 percent of the employed

labor force. These ratios would be unacceptable as a permanent state of affairs. However, it is one of our features for employment and unemployment to both grow rapidly at the same time. In the last few years employment has decreased in absolute terms in Austria, Belgium, France, Canada, the United States, and so on, while the number of unemployed has risen sharply in many of them. This means that people already employed have lost their jobs, and young people who have come of working age have not found work. Our case is quite the reverse. If we take the period of the last 15 years, from 1969 to 1984, we find that employment has risen rapidly in every year, by an average of 185,000 persons. This is twice as large as the natural growth of the able-bodied population. Yet over that same time the number of persons seeking employment has tripled, jumping from 330,000 to about 1 million. At the same time, in 1969 the unskilled (semiskilled, unskilled and persons with elementary training) accounted for 73 percent of all those seeking employment, but in 1984 they represented only about 47 percent!

The entire effort of society to provide new jobs is being pursued through investment policy and the policy of education. As for investments, it is generally known that we have been leaders with respect to the share of the social product which has been destined for those purposes, and we are also all aware how enterprising we are in carrying out the reforms of education. The high number of persons seeking employment, then, demonstrates that major shortcomings are concealed in these policies.

From the socioeconomic standpoint the principal fact in postwar economic development has been the extremely rapid transfer of population from private agriculture to socialized nonfarm activities. The share of the farm population in the total population was about 70 percent 35 years ago, and now it is only 19 percent. This has been an uninterrupted flow, an unstoppable wave of people abandoning the land and rural areas. Nor has it stopped. From the end of the war up to the 1981 Population Census the farm population decreased by more than 6.1 million persons, by more than 3.5 million during the decade between the two censuses (1971-1981).

Economic policy, development policy in particular, has left that process to take place on its own, haphazardly, without exerting an influence on its proportions, directions or consequences.

#### A Fateful Wave

Once initiated, the fateful wave of abandoning agriculture has spread more and more and gained strength. There are more and more persons employed, the cities have grown larger and larger, there are more and more housing units, but the number of persons seeking employment has grown still faster.

<u>Year</u>	<u>Employed Labor Force</u>	<u>Seeking Employment</u>	<u>Ratio (%)</u>
1954	2,005,000	76,200	3.8
1964	3,608,000	212,500	5.9
1974	4,514,000	448,600	9.9
1984 (estimate)	6,450,000	1,000,000	15.5

The first of the problems here has to do with definition and classification. When we are talking about abandoning agriculture, "persons seeking employment" is the correct term and in no respect does it coincide with the term "unemployed" in the advanced countries of the West. Land as one of the principal factors of production is being left more and more without a sufficient number of hands to cultivate it. According to the censuses, on about 10 million hectares of cropland there was a farm population of about 9.2 million in 1961, about 7.8 million in 1971, and about 4.3 million persons in 1981. Over those 20 years the physical volume of agricultural production increased 64 percent, and it follows that we have a 3.5-fold larger output per member of the farm population in 1981 than we had in 1961. Mechanization and chemicalization of agriculture have made an essential contribution here.

However, this immense decrease in the farm population took place over a period of 30-35 years, within and even shorter than a single working life. That is how it is that we suddenly have an age-specific composition of the farm population which cannot meet the requirements of present-day field cropping, animal husbandry or fruitgrowing. The 1981 Census showed that nearly 1.7 million members of the farm population are over age 50, and only 1.4 million are between the ages of 20 and 49. Not to mention the fact that the very rapid outflow of population from agriculture had to have the result that the growth rate of agricultural production would be and would remain slow, with a very bad influence on the stability of the domestic market and on the balance of payments.

A policy governing development, education and culture that would have made abandonment of agriculture by young people more moderate would unquestionably have been more advisable.

#### Heedless Abandonment of Agriculture

The statistics on people seeking employment offer quite a few figures, but one is lacking: what kind of households do those seeking employment come from and how large is the landholding they are abandoning. One can assume that there are hundreds of thousands of young people who have turned their backs on the land and registered with employment security bureaus. Two questions: Why is that the case and why is the wait for a job so long?

The heedless abandonment of agriculture, even at the price of being without work, can only mean that there is an immense imbalance between the general attractiveness of labor in agriculture and nonfarm activities. This applies both to the living and working conditions and also to remuneration as a whole. Everything in industry is more favorable than in agriculture. The personal income is dependable, a large hot meal is practically free, annual vacation is subsidized, the working hours are shorter; the statistics have recorded that those employed in industry do 142 hours of effective work a month on the average, as against 153 hours in agriculture, which means 2 working days less. Health care and social welfare, including old-age insurance, are very important factors in the huge imbalance to the advantage of socialized nonfarm activities. The great certainty of finally obtaining a dwelling in the city gratis is probably among the most important factors. But then there are also

the factors of the "environment," culture and entertainment, political life and self-management, which are very important for young people who have finished elementary and secondary school.

If the magnet is pulling so powerfully in the direction of nonfarm activities, a second question remains, that which has to do with the number of persons seeking employment and the length of time they wait.

#### Few Rights for the Unemployed

We might frame the hypothesis that work collectives, by the nature of things, are exclusive and hostile toward hiring new workers. At the end of 1983 there were more than 120,000 organizations and communities which had the constitutional right to dispose of the entirety of their income, i.e., and the right not to use it to open up new jobs. When one group has all the rights, this can mean that an other group has few. This might contain an explanation for the enactment of legislation on mandatory hiring of trainees or mandatory retirement of workers, and perhaps that is also why investments in new economic facilities have depended to such a degree on the initiative of tie-ups between politicians and professional managers outside associated labor. At this point we might recall Cicero's words, which are extremely apt in dialectical terms: *Summum jus, summa injuria* (A right that is complete is a complete injustice).

This is certainly a topic for research, but it also seems certain that the constitution, and not only implicitly either, has made the workers in associated labor responsible for "in the exercise of their right to work with the resources of society ... in their own common interest and in the interest and in the interest of the entire society, to use those resources in a manner that is socially and economically effective and to constantly renew them, augment them and improve them as the material foundation of their own labor and of social labor as a whole...." However, the constitution, which is so detailed in less important matters, leaves open the question of the discharge of that responsibility, that is, of the measures of society to be taken toward those organizations which do not discharge that responsibility.

Another problem altogether, but the most important one, is that of the material strength of the organizations and communities to discharge that social obligation of theirs. This brings us to the well-known history of the excessive burden on the economy and the need for its relief.

Article 159 of the constitution states: "The right to work shall be guaranteed.... All who manage or dispose of the resources of society and sociopolitical communities are required to create increasingly favorable conditions for exercise of the right to work.["] This means that the second harpy, high inflation, has to be killed. Attempts over several years to do this with a restrictive economic policy, by putting limits on absolutely everything, the money supply, credit, sales prices, imports, travel, advertising ... did not yield results, nor could they have. Economic policy has not correctly implemented the pledges contained in the constitution, which are clear.

It now appears that everyone in the country knows everything about inflation. However, there are no prospects whatsoever for the high rate of inflation to



be removed by economic measures if the major process of the outflow of population from agriculture is ignored or if it is even speeded up. Agriculture is the right area for profound anti-inflation effects. It must, along with other factors, make an essential contribution to the stability of the market, the money and the balance of payments. Not a single sector of the economy can be successful unless its factors of production are linked together in harmonious and well-conceived use. More than four-fifths of the land is in private hands, there is large "capital" in socialized banks which are not sufficiently oriented toward agriculture, and the manpower is on the way from rural areas to the employment security office. Agriculture requires completely new planning and an all-inclusive approach including economic policy, social welfare policy, education policy and cultural policy.

Unemployment is contributing essentially to inflation, not just to latent inflation. The people seeking employment are a burden on the demand, offering little or nothing to the supply. In a society of the Yugoslav type this kind of pressure toward inflation of demand is truly great and irremovable. And the immense expenditures for education, both personal and socialized, must operate toward inflation of costs if we are talking about the hundreds of thousands of educated young people who are not working.

By a feedback effect inflation is contributing to high unemployment by making it harder and harder to bring new workers in. Through the disorder which it inflicts on the economy inflation has the effect that investments to create new jobs have been growing very rapidly. In the same prices (1972 prices), that is, as a real quantity, it cost about 400,000 dinars of capital investments for each newly employed person in the period 1970-1971, between 550,000 and 600,000 dinars in the period 1976-1979, about 650,000 dinars in the period 1980-1981, and about 730,000 dinars in the period 1982-1983. With the general growth trend of inflation the real social effort to employ a new person, expressed as investments in fixed capital, is becoming larger and larger and more and more difficult. You might think that we are dealing here with a higher and higher organic composition of the new capital investments, that is, an ever higher level of equipment of new work stations. However, the movement of producers' prices suggests a conclusion similar to the one we just drew. Between 1971 and 1983 producers' prices in industry rose about 8.5-fold, and construction prices, which to a large degree determine expenditures for capital investments, nearly 11.5-fold.

#### A Giraffe in a Snail's Shell

What can the tiny moves of restrictive economic policy achieve by comparison with a gigantic process of abandoning private agriculture? This process follows its own course in spite of [anti]-inflation measures of that kind, helping to prevent them from becoming effective. In the Yugoslav case the restrictive economic policy can remove the high rate of inflation just as much as a giraffe can fit into a snail's shell.

The third harpy, ineffective investments, works in concert with the first two. We are using more and more social investments per unit growth of the social product. In 1982 we spent more than four-fifths more on them in real terms

than in 1976, and that is not to mention 1983, when the social product fell. And it is well known that in this respect we have never been among the best in an international comparison.

Investment projects are worthless when the newly built facility becomes unusable or when it cannot operate with a good level of utilization. The reason for this is that the capital invested is slow to be activated, locations are wrong, the market has not been studied, but above all the construction is not coordinated from the broader structural standpoint. Because of the drop in the efficiency of investments, in 1976 it took the social product from 9 workers in order to create a job for a tenth, while in 1982 and 1983 it took the social product of 11 workers to create one new job.

This vicious circle can be well imagined. Inflation limits the creation of new jobs and contributes to the low effect of investments, since everyone goes in the direction of rapid and small-scale investments, avoiding saving over a longer period of time; the major projects which are needed for a better economic structure and infrastructure are lacking. High unemployment encourages inflation and detracts from the efficiency of investments, especially when looked at over the long run. The worthless investment projects increase both inflation and unemployment.

There is no way out of this without an all-inclusive approach. Unemployment, inflation, the inefficiency of investments can be corrected only through strong economic growth, and there are conditions for that. Only the optimum structure of the economy and noneconomic activities can resolve these problems. Restrictive economic policy might improve the structure, but at the price of increasing unemployment.

Using market forces and "economic laws" means making the economy more life-giving, more creative, freer and bolder. But unless there is a unified Yugoslav development plan there can be no unity of the market nor a better economic structure. For our case controlled use of the effects of the market and planning based on self-management, all the way to a unified Yugoslav development plan, must be the weapons for us to free ourselves of the harpies.

#### Labor Productivity

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[Text] The unemployed are waiting for a job, but those who are employed are not showing the necessary ability to offer to them without injury to their own economic position. This is a situation when there are too many people even for the given social product, and a larger social product seems unfeasible.

"The origin of the crisis lies in the productivity of labor, a phenomenon which is 50 percent mysterious," writes Alain Mains in "L'Avenir en face." I believe he is wrong. Productivity is not a *causa sine causa*, a cause without a cause, nor is it mysterious.

Total productivity of labor of the Yugoslav economy was at its high point in 1979, and then it dropped steadily for 4 years, improving somewhat in 1984. The social product per member of the employed labor force was about 66,300 dinars in 1979 and about 61,800 in 1984, i.e., approximately where it was 10 years earlier at the transition from 1975, that distant time, to 1976 (all in 1972 prices).

The principal sectors of the economy, industry, transportation and socialized agriculture, with respect to productivity in 1984 were approximately where we saw them in 1979, but construction has even recorded a drop of almost 30 percent.

This did not come about in and of itself.

#### There Is Nothing Mysterious

The economy's total labor productivity is determined by numerous factors, but we can classify them in three groups: those which are related to the supply of production and trade in raw materials, production supplies and energy; those which pertain to the possible output of labor under normal circumstances of reproduction; those which arise out of the possibilities and conditions for confirmation of goods and services on the market.

As for labor productivity as a key factor in constant economic growth, Yugoslav economic policy must be much more effective than up to now. In fact it seems to have forgotten that increasing productivity is the principal lever in economic development.

The resolution of the 12th LCY Congress on development of socialist self-management and on the country's material and social progress bristles with the emphasis it places on the paramount role of labor productivity. We read, for example: "The level of development of the productive forces necessitates much more intensive conduct of economic activity, in which the decisive factors will be productivity of labor ..."; and then: "... increasing output and income on the basis of higher productivity have key importance."

As a matter of fact, those are not new orders, since we find them in all political documents beginning with the LCY Program. Nevertheless, the effects of economic policy are going in the opposite direction since the choice was made for a completely unharmonized economic activity of countless decentralized economic units, even turning aside from the healthy operation of market laws and the role of the Yugoslav plan envisaged by the constitution. Later, when the grave consequences of the nonsense had accumulated, causing high unemployment and a drop in real personal income, stagnation of production and unrestrained inflation, a very large foreign debt and many sterile investments, it seizes upon the general restrictiveness of all its measures as a strategy for getting out! We have thus been given administrative restriction and the freezing of prices, excessively strict credit and monetary policy, a sharp cut-back on imports, what amounts to a ban on the importation of equipment, a very severe drop in personal incomes and the standard of living. The rise of labor productivity has thereby become a hope without prospects.

When it comes to supplying production and trade with raw materials, production supplies and energy, two things have stood in the way of the rise of labor productivity. First, the domestic market tends to be local and splintered, and then it is very difficult to cut back imports.

The localized and splintered market is the product of an economy which has been institutionally localized. If the rise and wealth of the entire superstructure, education, science, entertainment and athletics, the health service and the social welfare service, and so on, depend directly on the number of persons employed in the economy and on the sum total of their personal incomes in a single opstina, the campanilism, or the view from one's own bell tower, inevitably becomes the economic horizon, since nothing outside it has greater importance in that view. The more jobs of "its own" in the economy, even at the price of poor business operation, the broader the opstina base for building up the social services. If new jobs are done poorly, the problem is solved by raising prices.

#### The Roots of the Resistance and the Causes of the Forgetfulness

The same applies to a still greater degree to the republics and provinces, since here there is no siphoning off and help to be received from other budgets and funds. There is an exception in the appropriations for the underdeveloped republics and Kosovo, but the mechanisms through which they are administered are not based on the principle of ever greater integration of the unified economic space of Yugoslavia.

It is understandable, then, how the "consensus economy" comes about, since what is constructed in the operation of market forces has to break down local and regional exclusiveness. Here indeed are the roots of the resistance to the greater operation of economic laws which the Stabilization Program is counting on; here are the causes of the forgetfulness about the unified Yugoslav development plan, and also the explanation as to why the constitutional principle concerning gross personal incomes is not being implemented. Wherever an economic organization should look outside its quite narrow region of connections for cooperation, joint ventures, the pooling of foreign exchange, and the like, on the basis of its own economic calculation or relations guided by a plan, it can anticipate that the move will be blocked by "its own" socio-political community.

The lower-level community interprets in an exaggerated way the responsibility it is given in the constitution for its own development as though it were cut off from the broader whole, even as though that development is supposed to be achieved by cutting off from the whole, not through the latter's optimum climb.

The decline of imports should be seen as the second factor in the stagnation and drop of labor productivity with respect to the supply of the economy. If we take the number of persons employed as a given quantity, since in our context it cannot be reduced, the large decline of imports inevitably hits the Yugoslav economy hard, since an erroneous development strategy built it in such a way that it is highly dependent upon purchases from abroad.

We should look for a correlation in the trends below.

<u>Year</u>	<u>Social Product Per Person Employed, dinars (1972 prices)</u>	<u>Physical Volume of Imports (1976 = 100)</u>
1977	63,200	114.7
1978	64,800	113.7
1979	66,300	133.8
1980	65,700	120.2
1981	64,800	105.0
1982	63,600	90.3
1983	61,600	86.1
1984 (estimate)	61,800	87.8

Imports (physical volume) reached their high point in 1979, at the same time as labor productivity (the social product per member of the employed labor force). After that imports have been dropping, and productivity along with it. When all is said and done, in 1984 imports were at the same volume as in 1971, and productivity was the same as in 1976.

It is easy to understand how wrong it was to heedlessly borrow abroad over the period 1977-1981. The drastic restriction of imports, which had to occur as a consequence of that, since the burden of paying back the debts did not leave enough room for their necessary growth, is undoubtedly making a serious contribution to holding back labor productivity. The projected absolute reduction of the foreign debt by taking smaller foreign credit than the amounts of the payments that have to be made will operate in the same direction in the years to come.

#### Work Incentives

If productivity has still been falling more slowly than imports, the rise in the level of equipment the worker works with should be seen among the reasons. Thanks to the very high investments, that level on a per worker basis has been rising steadily in spite of the high rate of new hiring. In 1982 (the last available figure) the value of fixed capital per employee was 24 percent higher than in 1976 (in the same prices).

Here we find without a doubt the negative effect on people's motivation to increase the output from their labor. Real personal income per worker has been falling steadily since 1979, and in 1984 it was down 34 percent. This has had at least two consequences. First, a larger portion of those employed are receiving personal incomes which do not meet the higher cost of living. This forces them to nibble away from the hours of their regular employment in various ways, wherever that is possible, so that they would have more strength and ability for additional economic activity. Preference is given to private work in the service activities and to jobs done for a fee, and the "half-worker/half-peasant," who still represents a very numerous category in the total employed labor force, tries and succeeds, to the detriment of the social sector, to make the best possible use of his strong ties to the earth and to his rural family. Second, as real personal incomes drop, leveling intensifies. The disproportion in earnings discourages those who are most productive.

The restrictive economic policy has unfortunately not been able to see the disastrous consequences of the drastic drop in real personal incomes for the overall productivity of labor of the Yugoslav economy and everything that must result from that.

Finally, when it comes to market confirmation of the value of the goods produced and the services rendered, we will encounter those same phenomena of the localization and splintering of Yugoslav economic space which have already been emphasized. Low productivity can be accepted by "one's own" closed market, which can also reject "someone else's" high productivity.

The restrictive credit policy operates counter productively under the conditions of severe price disparities. The producers of goods with depressed prices are waiting for better times, for a higher price, but they fall victim to high rates of interest. Goods with prices higher than the parity need not be much concerned about the productivity of the labor contained in them. Inflation is winning.

Inflation is also winning thanks to the foreign exchange "system." It is based on the principle of making imports contingent upon exports of every organization of associated labor and, as a practical matter, of every republic or province. The principal instrument for stimulating exports is now the disproportionate devaluation of the dinar. What we have seen over the last 2 years is now being repeated. During January 1985 the value of the dinar fell between 8 and 9 percent against the end of December, and the future that that promises is bringing new stimuli for higher prices and new threats to labor productivity. The export of products at a lower stage of manufacture and also exports at reduced prices diminished the social product in relative terms. That kind of exporting also leaves the domestic economy without the production supplies it needs.

When the productivity of labor is stagnant, and still more when it is dropping, new hiring fans the flames of inflation. Over the period 1979-1984 the size of the employed labor force in the economy increased by about 590,000, and total labor productivity declined. Over that same period the number of new pension beneficiaries and then the number of persons temporarily unemployed and the number of new persons hired in the noneconomic activities increased by more than 500,000 persons, and the number of beneficiaries of health insurance in these same categories increased by more than 800,000 persons.

There is no correct economic policy which does not place the rise of productivity at the center of its lasting goals.

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